

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2015

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM

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ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON BARTELSON BETHALTO

INDEPENDENT AUDITOR'S REPORT

August 21, 2015

Board of Commissioners
Metro East Sanitary District -
Lansdowne Trunk - Madison and
Venice Sewerage System
St. Clair and Madison Counties, Illinois

We have audited the accompanying financial statements of the business-type activities and each major fund of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (the "System"), a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the System'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Basis for Qualified Opinions

The System has not recognized the other post-employment benefit (OPEB) expense or obligation which is required in accordance with accounting principles generally accepted in the United States of America and under Government Accounting Standards Board (GASB) Statement No. 45, to be recorded in the proprietary fund financial statements. The effects of that departure on the financial statements are not reasonably determinable. The System has also not disclosed the descriptive information about the other post-employment benefits required by standards.

Qualified Opinion

In our opinion, except for the missing recognition matter described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System, a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois as of March 31, 2015, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

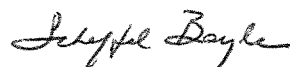
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 7 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System’s basic financial statements. The accompanying other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Edwardsville, Illinois

**METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2015

This section of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System's (the "System") annual financial report presents an analysis of the System's financial performance during the fiscal year ended March 31, 2015. This information is presented in conjunction with the audited basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Financial Statements of the Sewer Proprietary Fund. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the System report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identifies the System's revenues and expenses and provides information on the System's operations that can be used to determine whether the System has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the System's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE SYSTEM

The Statement of Net Position (page 10) and the Statement of Revenues, Expenses and Changes in Net Position (pages 11-12) provide an indication of the System's financial condition and also indicate that the financial condition of the System deteriorated during the last fiscal year. A decrease in net position over time typically indicates the financial condition needs to be thoroughly investigated.

NET POSITION

A summary of the System's Statement of Net Position is presented below.

Table 1
Condensed Statement of Net Position

	2015	Restated 2014	Dollar Change	Percentage Change
Assets				
Current Assets	\$ 2,323,311	\$ 2,873,049	\$ (549,738)	-19.13%
Capital Assets	5,839,737	5,738,259	101,478	1.77%
Total Assets	8,163,048	8,611,308	(448,260)	-5.21%
Liabilities				
Current Liabilities	483,962	405,788	78,174	19.26%
Long-Term Liabilities	1,904,354	2,007,857	(103,503)	-5.15%
Total Liabilities	2,388,316	2,413,645	(25,329)	-1.05%
Net Position				
Net Investment in				
Capital Assets	3,924,275	3,703,080	221,195	5.97%
Restricted	8,914	551	8,363	1517.79%
Unrestricted	1,841,543	2,494,032	(652,489)	-26.16%
Total Net Position	\$ 5,774,732	\$ 6,197,663	\$ (422,931)	-6.82%

For more detailed information see the Statement of Net Position (page 10).

As the above table indicates, total assets decreased by \$448,260 or -5.21% for the fiscal year ended March 31, 2015. This change is mainly comprised of a decrease of \$275,052 in cash, decrease of \$274,173 in receivables and an increase of \$101,478 in capital assets.

As the above table indicates, total liabilities decreased by \$25,329 or -1.05% for the fiscal year ended March 31, 2015. This change is mainly comprised of an increase of \$129,500 in Due to Metro East Sanitary District for insurance related expenses and a decrease of \$119,717 in IEPA loan from annual debt service payment.

Management's Discussion & Analysis

Table 1 also indicates that total net position decreased by \$422,931 or -6.82% for the fiscal year ended March 31, 2015.

Table 2
Condensed Statement of Revenues, Expenses
and Changes in Net Position

	2015	Restated 2014	Dollar Change	Percent Change
Operating Revenues	\$ 2,667,134	\$ 2,839,483	\$ (172,349)	-6.07%
Nonoperating Revenues	2,846	789	2,057	260.71%
Total Revenue	2,669,980	2,840,272	(170,292)	-6.00%
Depreciation Expense	220,187	207,320	12,867	6.21%
Other Operating Expenses	2,872,724	2,813,056	59,668	2.12%
Total Expenses	3,092,911	3,020,376	72,535	2.40%
Change in Net Position	(422,931)	(180,104)	(242,827)	134.83%
Beginning Net Position	6,197,663	6,377,767	(180,104)	-2.82%
Ending Net Position	\$ 5,774,732	\$ 6,197,663	\$ (422,931)	-6.82%

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items which impact the change in net position.

As the above table indicates, the System's total revenues decreased by \$170,292 or 6.00% for the fiscal year ended March 31, 2015. This change is mainly comprised of a decrease of \$171,127 in sewer fees.

As the above table indicates, the System's total expenses increased by \$72,535 or 2.40% for the fiscal year ended March 31, 2015. This change is mainly comprised of an increase in salaries of \$130,284 and a decrease in maintenance and repairs of \$63,644.

BUDGETARY HIGHLIGHTS OF THE SYSTEM

The System maintains a budget on the cash basis of accounting. Actual cash basis revenues are \$24,852 above the final budget amount, actual cash basis expenses are \$540,303 below the final budget amount, and actual nonoperating revenues are \$139 above the final budget amount. The significant variances in budgeted expenses are comprised of a decrease in actual maintenance and repairs of \$257,369, a decrease in actual secondary treatment expense of \$148,482, and a decrease in actual insurance of \$124,940.

For more detailed information see the Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) on page 24-25.

CAPITAL ASSETS

The System's investment in capital assets totaled \$5,839,737, net of depreciation, which is an increase of \$101,478 or 1.77% for the fiscal year ended March 31, 2015. Capital assets include all of the System's major capital assets; including infrastructure assets, lift stations, force main, trunk lines, treatment equipment and other structures, as well as any vehicles and other equipment with a value of \$10,000 or more. A comparison of the System's capital assets over the past two fiscal years is presented in Table 3 below.

Table 3
Capital Assets

	<u>2015</u>	<u>2014</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land	\$ 191,000	\$ 191,000	\$ -	0%
Buildings	3,323,798	3,323,798	-	0%
Equipment	3,242,967	2,921,302	321,665	11.01%
Office Equipment	21,030	21,030	-	0%
Force Main, Trunk Lines & Treatment Equipment	<u>5,918,118</u>	<u>5,918,118</u>	<u>-</u>	<u>0%</u>
Subtotal	12,696,913	12,375,248	321,665	2.60%
Less Accumulated Depreciation	<u>(6,857,176)</u>	<u>(6,636,989)</u>	<u>(220,187)</u>	<u>-3.32%</u>
Total Capital Assets, Net	<u>\$5,839,737</u>	<u>\$5,738,259</u>	<u>\$101,478</u>	<u>1.77%</u>

Please refer to the accompanying financial statements for additional information.

LONG-TERM DEBT

As of March 31, 2015, the System's long-term debt is \$1,904,354 of which \$108,608 relates to compensated absences and \$1,795,746 relates to the noncurrent portion of an Illinois EPA loan for emergency generators and the replacement of a 24 inch force main.

Please refer to the accompanying financial statements for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed officials considered many factors when setting the fiscal year 2016 budget. Some of the economic factors taken into account include: sewage treatment revenue and interest. Agreements exist with the State of Illinois Local Debt Recovery Program and Illinois American Water Company to assist with the collection of past due sewage treatment accounts. Expense factors include the maintenance and repair of sewer lines, secondary treatment expenses, employer paid benefits and employee salary increases.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Rosemarie Heath, District Clerk, Metro East Sanitary District, 1800 Edison Avenue, PO Box 1366, Granite City, IL 62040.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF NET POSITION

MARCH 31, 2015

	<u>BUSINESS-TYPE ACTIVITIES</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 1,735,921
Receivables:	
System Customers	576,551
Due from Metro East Sanitary District	1,205
Accrued Interest Income	720
Restricted Assets:	
Cash and Cash Equivalents	8,914
Capital Assets, Net of Accumulated Depreciation	<u>5,839,737</u>
Total Assets	<u>\$ 8,163,048</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 225,746
Due to Metro East Sanitary District	129,500
Noncurrent Liabilities:	
Due Within One Year:	
Illinois EPA Loan	119,716
Accumulated Unpaid Vacation and Sick Pay	9,000
Due in More Than One Year:	
Illinois EPA Loan	1,795,746
Accumulated Unpaid Vacation and Sick Pay	<u>108,608</u>
Total Liabilities	<u>\$ 2,388,316</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 3,924,275
Restricted for:	
203 Pump Station	8,914
Unrestricted	<u>1,841,543</u>
Total Net Position	<u>\$ 5,774,732</u>

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2015

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES CHARGES FOR SERVICES</u>	<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION BUSINESS-TYPE ACTIVITIES</u>
PRIMARY GOVERNMENT:			
Business-Type Activities:			
Sewer	\$ 3,092,911	\$ 2,667,134	\$ (425,777)
Total Business-Type Activities	\$ 3,092,911	\$ 2,667,134	\$ (425,777)
	GENERAL REVENUES:		
	Investment Income		\$ 2,846
	Total General Revenues		\$ 2,846
	CHANGE IN NET POSITION		\$ (422,931)
	NET POSITION - BEGINNING		6,234,215
	PRIOR PERIOD ADJUSTMENT		(36,552)
	NET POSITION - ENDING		\$ 5,774,732

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF NET POSITION
PROPRIETARY FUND

MARCH 31, 2015

ASSETS:

Current Assets:	
Cash and Cash Equivalents	\$ 1,735,921
Receivables:	
System Customers	576,551
Due from Metro East Sanitary District	1,205
Accrued Interest Income	720
Restricted Assets	
Cash and Cash Equivalents	8,914
	<hr/>
Total Current Assets	\$ 2,323,311
	<hr/>
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	\$ 5,839,737
	<hr/>
Total Noncurrent Assets	\$ 5,839,737
	<hr/>
Total Assets	\$ 8,163,048
	<hr/>

LIABILITIES:

Current Liabilities:	
Accounts Payable	\$ 225,746
Due to Metro East Sanitary District	129,500
Current Portion of Long-Term Debt:	
Illinois EPA Loan	119,716
Accumulated Unpaid Vacation and Sick Pay	9,000
	<hr/>
Total Current Liabilities	\$ 483,962
	<hr/>
Noncurrent Liabilities:	
Illinois EPA Loan	\$ 1,795,746
Accumulated Unpaid Vacation and Sick Pay	108,608
	<hr/>
Total Noncurrent Liabilities	\$ 1,904,354
	<hr/>
Total Liabilities	\$ 2,388,316
	<hr/>

NET POSITION:

Net Investment in Capital Assets	\$ 3,924,275
Restricted for:	
203 Pump Station	8,914
Unrestricted	1,841,543
	<hr/>
Total Net Position	\$ 5,774,732
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See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2015

OPERATING REVENUES:

Sewer Fees	\$ 2,656,139
Lien Fees and Miscellaneous Charges	10,693
Miscellaneous Revenues	302
	<hr/>
Total Operating Revenues	\$ 2,667,134

OPERATING EXPENSES:

Salaries	\$ 867,992
Utilities	91,002
Telephone	5,777
Maintenance and Repairs:	
Buildings	31,046
Equipment	47,660
Vehicles	21,422
Employer's FICA Expense	64,763
Employer's IMRF Expense	81,092
Unemployment Compensation	9,943
Uniform Allowance	1,750
Depreciation	220,187
Accounting Fees	11,075
Engineering Fees	84
Legal Fees	8,390
Office Supplies	7,078
Printing and Publishing	3,457
Credit Card Chargeback - E-pay	11,979
Insurance	129,560
Postage	50,757
Office Space Rental	12,000
Group Insurance	203,466
Retiree Medical Insurance	3,600
Filing and Lien Fees	11,764
Secondary Treatment Expense	1,106,015
Illinois EPA Permit Fee	6,075
Computer System, Support and Software	10,989
Computer Supplies	3,133
Website Related Costs	181
Collection Fees	15,744

(continued on next page)

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
(CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2015

OPERATING EXPENSES (CONT'D):

Alarm	\$ 2,569
Lift Station Monitoring	2,421
Easements	450
Water Usage and Parcel Data Fees	6,681
Water Turn-Off Fees	22,455
Credit Reports	2,237
Equipment Lease Agreements	3,529
Water Testing Fees	8,052
203 Lift Station Expenses	5,006
Miscellaneous	1,530
	<hr/>

Total Operating Expenses	\$ 3,092,911
	<hr/>

OPERATING LOSS	\$ (425,777)
	<hr/>

NONOPERATING REVENUES (EXPENSES):

Interest Income	\$ 2,846
	<hr/>

Total Nonoperating Revenues (Expenses)	\$ 2,846
	<hr/>

CHANGE IN NET POSITION	\$ (422,931)
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NET POSITION, BEGINNING OF YEAR	6,234,215
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PRIOR PERIOD ADJUSTMENT	(36,552)
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NET POSITION, END OF YEAR	\$ 5,774,732
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See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANDSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Customers	\$ 2,839,771
Cash Payments to Suppliers and Others	(1,461,438)
Cash Payments to Employees for Services	(1,214,642)
	<hr/>
Net Cash Provided by Operating Activities	\$ 163,691
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	\$ (321,665)
Repayments on Illinois EPA Loan	(119,717)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	\$ (441,382)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Earned on Investments	\$ 2,639
	<hr/>
Net Cash Provided by Investing Activities	\$ 2,639
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (275,052)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<hr/> 2,019,887
CASH AND CASH EQUIVALENTS - END OF YEAR	<hr/> <hr/> \$ 1,744,835
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Loss	\$ (425,777)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	220,187
Changes in Assets and Liabilities	
(Increase) Decrease in Assets	
Receivables	
System Customers	172,637
Granite City Regional Treatment Overpayment	92,659
Due from Metro East Sanitary District	9,597
Increase (Decrease) in Liabilities	
Accounts Payable	(45,669)
Accounts Payable - Restricted	(5,657)
Due to Metro East Sanitary District	129,500
Accumulated Unpaid Vacation and Sick Pay	16,214
	<hr/>
Net Cash Provided by Operating Activities	\$ 163,691
CASH AND CASH EQUIVALENTS ACCOUNTED FOR AS FOLLOWS:	
Unrestricted Cash and Cash Equivalents	\$ 1,735,921
Restricted Cash and Cash Equivalents	8,914
	<hr/>
	<hr/> <hr/> \$ 1,744,835

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (the "System") is a component unit of the Metro East Sanitary District. The accounting policies of the System 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 System has developed criteria to determine whether outside agencies with activities, which benefit the System, should be included within its financial reporting entity. The criteria for including organizations within the System's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Based on these criteria, the System is considered a component unit of the Metro East Sanitary District and there are no component units in the reporting entity.

The financial statements for the Metro East Sanitary District may be obtained by writing to the Metro East Sanitary District, 1801 Madison Avenue, Granite City, Illinois 62040.

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 financial information for the System as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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) operating grants and standard revenues, if any, that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 and proprietary funds. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

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

C. Fund Accounting

The accounts of the System are organized and operated 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. The minimum number of funds are maintained consistent with legal and managerial requirements.

Funds are classified into three categories: governmental, proprietary, and fiduciary. The System is classified as a proprietary fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The System does not have any internal service funds.

The System reports the following major proprietary fund:

Sewerage Fund - The Sewerage Fund is used to account for the operation of the sewer utilities owned by the System.

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*, as are the proprietary funds. Revenues and additions are recorded when earned and expenses and deductions are reported when a liability is incurred. Grants and similar items, if any, are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Operating revenues/expenses include all revenues/expenses directly related to providing sewer services. Incidental revenues/expenses are reported as nonoperating.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the System's sewerage (proprietary) fund are charges to customers for sales and services and are reported net of discounts and bad debts. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures. Actual results could vary from estimates that were used.

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

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

F. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of six months or less from the date of acquisition.

G. Accounts Receivable and Allowance for Doubtful Accounts

All receivables are reported net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The System's allowance for doubtful accounts was \$300,000 for the fiscal year ending March 31, 2015.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., treatment facilities, lift stations and similar items), are reported in the business-type activities columns in the government-wide financial statements. Capital assets are defined by the System as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Equipment	
Pumps and controls	50
Office equipment	10
Force main, trunk lines and treatment plant	75

I. Accumulated Unpaid Vacation and Sick Pay (Compensated Absences)

The System has a formal policy, which allows employees to accumulate unused vacation and sick leave. Due to the fact that these accumulations are payable to the employee upon separation from service, the accompanying financial statements include an accrual for these unpaid amounts. Amounts were calculated by using pay rates in effect at year-end.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

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

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term obligations are reported as liabilities.

K. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the System applies the expense to restricted resources first.

NOTE 2: DEPOSITS AND INVESTMENTS

The System is authorized by state statute to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the United States of America, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the highest classifications by at least two standard rating services and the Illinois Funds Investment Pool. The System does not enter into any reverse repurchase agreements.

At March 31, 2015 the System had the following investment:

<u>Primary Government</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u> <u>Less than 1 year</u>
External Investment Pool - Illinois Funds	<u>\$ 192,779</u>	<u>\$ 192,779</u>

Reconciliation to financial statements:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Exhibit "A"			
Cash and Cash Equivalents	\$ 1,543,142	\$ 192,779	\$ 1,735,921
Restricted Assets			
Cash and Cash Equivalents	<u>8,914</u>	<u>-</u>	<u>8,914</u>
Total Carrying Amounts	<u>\$ 1,552,056</u>	<u>\$ 192,779</u>	<u>\$ 1,744,835</u>

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 2: DEPOSITS AND INVESTMENTS (CONT'D)

The State Investment Pool is a 2a7-like pool. Investments in Illinois Funds are valued at Illinois Funds' share price, the price for which the investment could be sold. The difference between fair value and the value at Illinois Funds' share price is immaterial.

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, an investment with a longer maturity date will have a greater sensitivity of its fair value to changes in market interest rates. The System has a formal investment policy, although that policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of March 31, 2015, the System's investment in the external investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's deposits that are insured under FDIC is \$250,000 and any remaining balances in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent third party institution in the name of the System. Cash held in banks were 100% insured by the FDIC or covered by pledged collateral at March 31, 2015.

The System's deposits in the state investment pool are fully collateralized. The individual participants maintain separate deposit accounts representing a proportionate share of the pool assets and its respective collateral; therefore no collateral is identified with each individual participant's account.

Concentration of Credit Risk

More than 5% of the System's investments are in the external investment pool. This investment is 100% of the System's total investments.

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2015 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	<u>\$ 191,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,000</u>
Total Capital Assets Not Being Depreciated	<u>191,000</u>	<u>-</u>	<u>-</u>	<u>191,000</u>
Capital Assets Being Depreciated				
Buildings	3,323,798	-	-	3,323,798
Equipment	2,921,302	321,665	-	3,242,967
Office Equipment	21,030	-	-	21,030
Force Main, Trunk Lines and Treatment Plant	<u>5,918,118</u>	<u>-</u>	<u>-</u>	<u>5,918,118</u>
Total Capital Assets Being Depreciated	12,184,248	321,665	-	12,505,913
Less Accumulated Depreciation	<u>6,636,989</u>	<u>220,187</u>	<u>-</u>	<u>6,857,176</u>
Total Capital Assets Being Depreciated, Net	<u>5,547,259</u>	<u>101,478</u>	<u>-</u>	<u>5,648,737</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 5,738,259</u>	<u>\$ 101,478</u>	<u>\$ -</u>	<u>\$ 5,839,737</u>

Depreciation expense is charged to business-type activities as follows:

BUSINESS-TYPE ACTIVITIES	
Sewerage Fund	<u>\$ 220,187</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 220,187</u>

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 4: LONG-TERM DEBT

Summary and Discussion Relating to Debt Recorded on Accompanying Financial Statements

The following is a summary of changes in long-term debt for the year ended March 31, 2015, and the related fund where this debt is recorded on the accompanying financial statements:

<u>Description and Purpose</u>	<u>Balance April 1, 2014</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>Balance March 31, 2015</u>	<u>Due Within One Year</u>
BUSINESS-TYPE ACTIVITIES					
Sewerage Fund					
Illinois EPA Loan	\$2,035,179	\$ -	\$ 119,717	\$1,915,462	\$ 119,716
Accumulated Unpaid Vacation and Sick Pay	101,394	16,214	-	117,608	9,000
Total Business-Type Activities	<u>\$2,136,573</u>	<u>\$ 16,214</u>	<u>\$ 119,717</u>	<u>\$2,033,070</u>	<u>\$ 128,716</u>

IEPA Loan #1

During the fiscal year ended March 31, 2010, the District entered into a loan/grant agreement with the Illinois Environmental Protection Agency for construction of a 24 inch replacement sewer main and emergency generators. The loan portion was approved for \$2,317,146 and the District has drawn down 100% on the loan and received \$721,854 in grant revenues as of March 31, 2014. The loan is a 20 year loan with an annual fixed rate of 0%.

The annual requirements to amortize the IEPA loan as of March 31, 2015, are as follows:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 119,716	\$ -	\$ 119,716
2017	119,716	-	119,716
2018	119,716	-	119,716
2019	119,716	-	119,716
2020	119,716	-	119,716
2021-2025	598,583	-	598,583
2026-2030	598,583	-	598,583
2031	119,716	-	119,716
	<u>\$ 1,915,462</u>	<u>\$ -</u>	<u>\$ 1,915,462</u>

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 5: RETIREMENT COMMITMENTS

Illinois Municipal Retirement Fund

The System is a participating member of the Illinois Municipal Retirement Fund. All employees of the System are eligible to become members of this plan. Funding commitments and other related information relative to the plan are available in the financial statements of the Metro East Sanitary District, 1801 Madison Avenue, Granite City, Illinois 62040.

NOTE 6: RELATED PARTY TRANSACTIONS

Lease of Office Space

The System leases office space on a monthly basis from the Metro East Sanitary District. Currently, monthly lease payments are \$1,000. Office space rental was \$12,000 for the fiscal year ended March 31, 2015. No formal lease has been executed between the related parties.

Due from Metro East Sanitary District

As of March 31, 2015, the System has an amount due from the Metro East Sanitary District totaling \$1,205. This account represents payroll related transfers in excess of actual payroll reimbursement requirements made to the District's payroll clearing account.

Due to Metro East Sanitary District

As of March 31, 2015, the System had an amount due to the Metro East Sanitary District totaling \$129,500. This account represents various insurance related costs paid by the District's Liability Insurance Fund.

NOTE 7: RESTRICTED ASSETS - 203 PUMP STATION

On July 23, 1997, the Lansdowne System entered into an agreement to purchase a sanitary pumping station located on Gateway International Race Track real estate adjacent to Highway 203, north of Interstate 70 in East St. Louis, Illinois for \$259,895.29. The amortized cost of the station is to be payable monthly by the owners of the race track and/or the occupant of the current race track property. This loan was paid during the fiscal year ended March 31, 1999.

In accordance with an additional agreement related to the above station, all current and any future users of the pump station are responsible for the cost of maintenance. The System is responsible for maintaining the station and is to bill users for the related costs.

The additional agreement referenced in the preceding paragraph also provides for the accumulation of funds for the ultimate replacement of worn pumps and parts. This account is to be increased by payments payable on a monthly basis over a five (5) year term by all users of the system until it reaches a maximum balance of \$50,000. The accompanying financial statements account for these accumulations as restricted assets totaling \$8,914 at March 31, 2015.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 8: RISK MANAGEMENT

Workers' compensation and general liability losses are covered by commercial insurance. There have been no significant reductions in these insurance coverages during the year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9: PRIOR PERIOD ADJUSTMENT

The March 31, 2015 governmental activities and fund financial statements contain a prior period adjustment to adjust the accrued sick and vacation pay in the amount of \$36,552.

NOTE 10: 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.

METRO EAST SANITARY DISTRICT
LANDSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>LAST FIVE FISCAL YEARS</u>				
	<u>2015</u>	<u>RESTATED 2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:					
Sewerage Treatment Charges	\$2,656,139	\$ 2,827,266	\$2,883,545	\$2,719,188	\$3,003,565
Court Costs/Lien Fees/Other	10,995	12,217	46,017	24,064	7,744
Total Operating Revenues	\$2,667,134	\$ 2,839,483	\$2,929,562	\$2,743,252	\$3,011,309
OPERATING EXPENSES	\$3,092,911	\$ 3,020,376	\$2,926,602	\$3,238,699	\$2,706,007
Total Operating Income (Loss)	\$ (425,777)	\$ (180,893)	\$ 2,960	\$ (495,447)	\$ 305,302
NONOPERATING REVENUES (EXPENSES):					
Interest Income	\$ 2,846	\$ 2,755	\$ 3,895	\$ 7,118	\$ 12,771
Loss on Sale of Stock	-	(1,966)	-	-	-
Sale of Land/Scrap	-	-	-	683,720	4,638
Commerce and Economic Opportunity Grant	-	-	-	-	95,937
Total Nonoperating Revenues (Expenses)	\$ 2,846	\$ 789	\$ 3,895	\$ 690,838	\$ 113,346
CHANGE IN NET POSITION	<u>\$ (422,931)</u>	<u>\$ (180,104)</u>	<u>\$ 6,855</u>	<u>\$ 195,391</u>	<u>\$ 418,648</u>

See accompanying independent auditor's report.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (CASH BASIS)

FOR THE YEAR ENDED MARCH 31, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING REVENUES:		
Sewer Fees	\$ 2,800,000	\$ 2,825,857
Lien Fees and Miscellaneous Revenues	12,000	10,995
Total Operating Revenues	<u>\$ 2,812,000</u>	<u>\$ 2,836,852</u>
OPERATING EXPENSES:		
Salaries	\$ 800,000	\$ 849,653
Utilities	120,000	89,304
Telephone	7,000	5,821
Maintenance and Repairs		
Sewer Line	200,000	-
Building	30,000	31,765
Equipment	125,000	50,662
Vehicle	6,500	21,704
Employer's Payroll Expense		
FICA	61,200	64,763
IMRF	86,880	81,545
Unemployment Compensation	12,500	9,943
Uniform Allowance	2,000	1,825
Fixed Asset Purchases		
Vehicles - Equipment	320,000	312,865
New Computers	5,000	2,887
Auditing and Accounting Fees	13,000	11,075
Engineering Fees	10,000	1,860
Legal Fees	8,000	9,140
Office Supplies	22,500	6,101
Printing and Publishing	1,500	3,319
Credit Card Chargeback - E-pay	12,000	11,979
Insurance	125,000	60
Postage	45,000	47,757
Office Space Rental	12,000	12,000
Group Insurance	175,000	207,066
Filing and Lien Fees	11,000	11,764
Secondary Treatment Expense	1,200,000	1,051,518
Illinois EPA Permits	5,000	6,075
Computer System, Support	6,000	11,199
Computer Supplies	10,000	3,286
Website Related Costs	200	153
Computer System Training	1,500	-
Travel and Training	3,000	-
Collection Fees	20,000	14,508
Alarm	3,000	2,604

(continued on next page)

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (CASH BASIS)
(CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING EXPENSES (continued):		
Lift Station Monitoring	\$ 2,500	\$ 2,421
Easements	850	450
Water Usage and Parcel Data Fees	7,500	6,563
Water Turn-Off Fees	27,500	24,970
Credit Reports	4,000	2,371
Equipment Lease Agreements	20,000	3,300
Water Testing Fees	8,000	7,953
203 Lift Station Expenses	-	10,663
Miscellaneous	5,000	1,934
Economic Stimulus Loan Repayments	119,716	119,717
	<hr/>	<hr/>
Total Operating Expenses	\$ 3,654,846	\$ 3,114,543
	<hr/>	<hr/>
Operating Income (Loss)	\$ (842,846)	\$ (277,691)
NONOPERATING REVENUES:		
Interest Income	2,500	2,639
	<hr/>	<hr/>
Decrease in Net Position	<u>\$ (840,346)</u>	<u>\$ (275,052)</u>
Reconciliation to GAAP Basis Financial Statements:		
Decrease in Net Position (Cash Basis)		\$ (275,052)
Adjustments to Reconcile Decrease in Net Position - Cash Basis to GAAP basis		
Increases (Decreases) in Assets Which are Not Recorded Using the Cash Basis		
Depreciation		(220,187)
Receivables		
System Customers		(172,637)
Granite City Regional Treatment Overpayment		(92,659)
Due from Metro East Sanitary District		(9,597)
Accrued Interest Income		207
(Increases) Decreases in Liabilities Which Are Not Recorded Using the Cash Basis		
Accounts Payable		51,326
Due to Metro East Sanitary District		(129,500)
Accumulated Unpaid Vacation and Sick Pay		(16,214)
Cash Payments Not Considered Expenses on GAAP Basis Statements		
Purchase of Capital Assets		321,665
Repayments on Illinois EPA Loan		119,717
		<hr/>
Decrease in Net Position - Exhibit "D"		<u>\$ (422,931)</u>

See accompanying independent auditor's report.