

**Metro East Sanitary District
Lansdowne Trunk - Madison and Venice
Sewerage System Enterprise Fund
St. Clair and Madison Counties, Illinois**

**ANNUAL FINANCIAL REPORT
Year Ended March 31, 2012**

**AND
INDEPENDENT AUDITOR'S REPORT**



Metro East Sanitary District
Lansdowne Trunk - Madison and Venice
Sewerage System Enterprise Fund
St. Clair and Madison Counties, Illinois

ANNUAL FINANCIAL REPORT

Year Ended March 31, 2012

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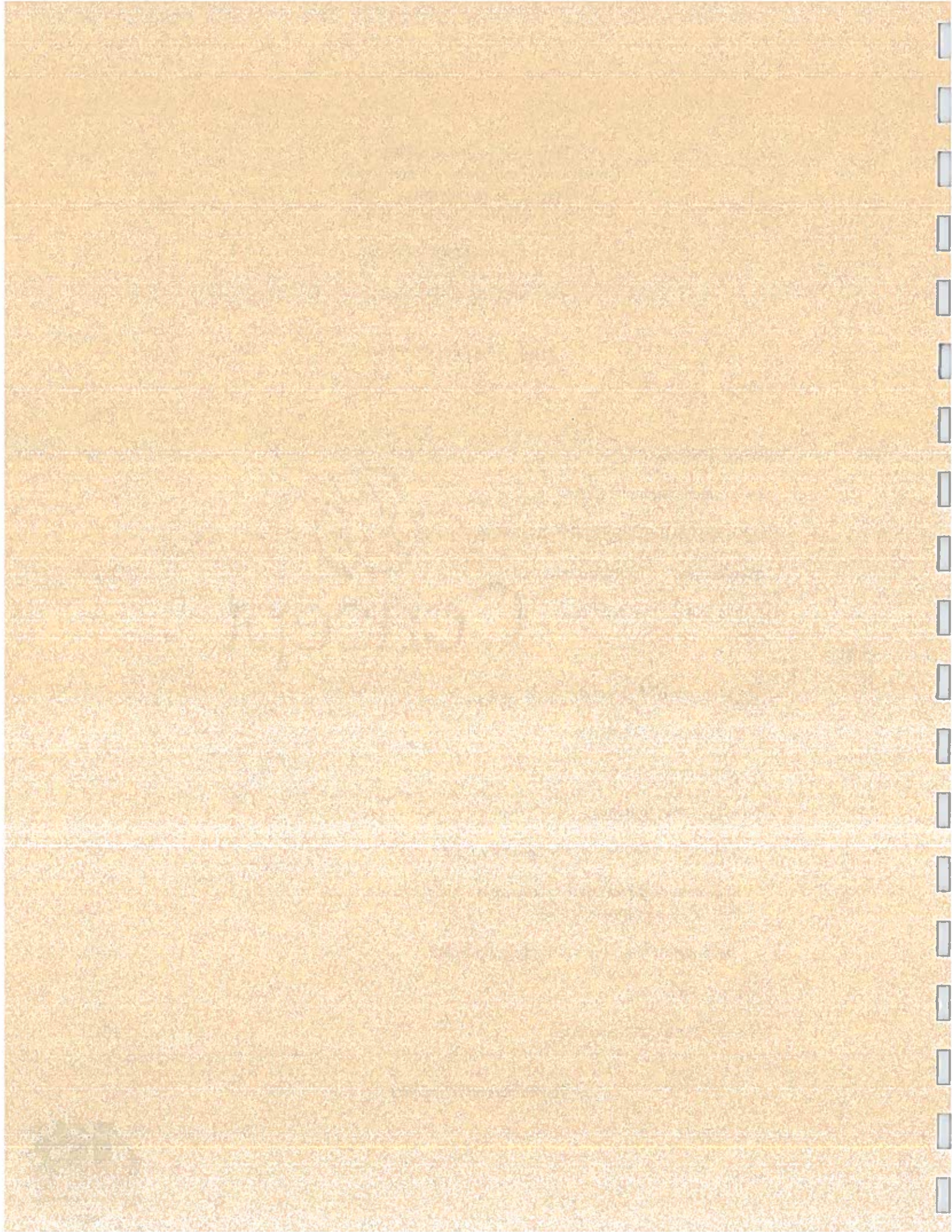


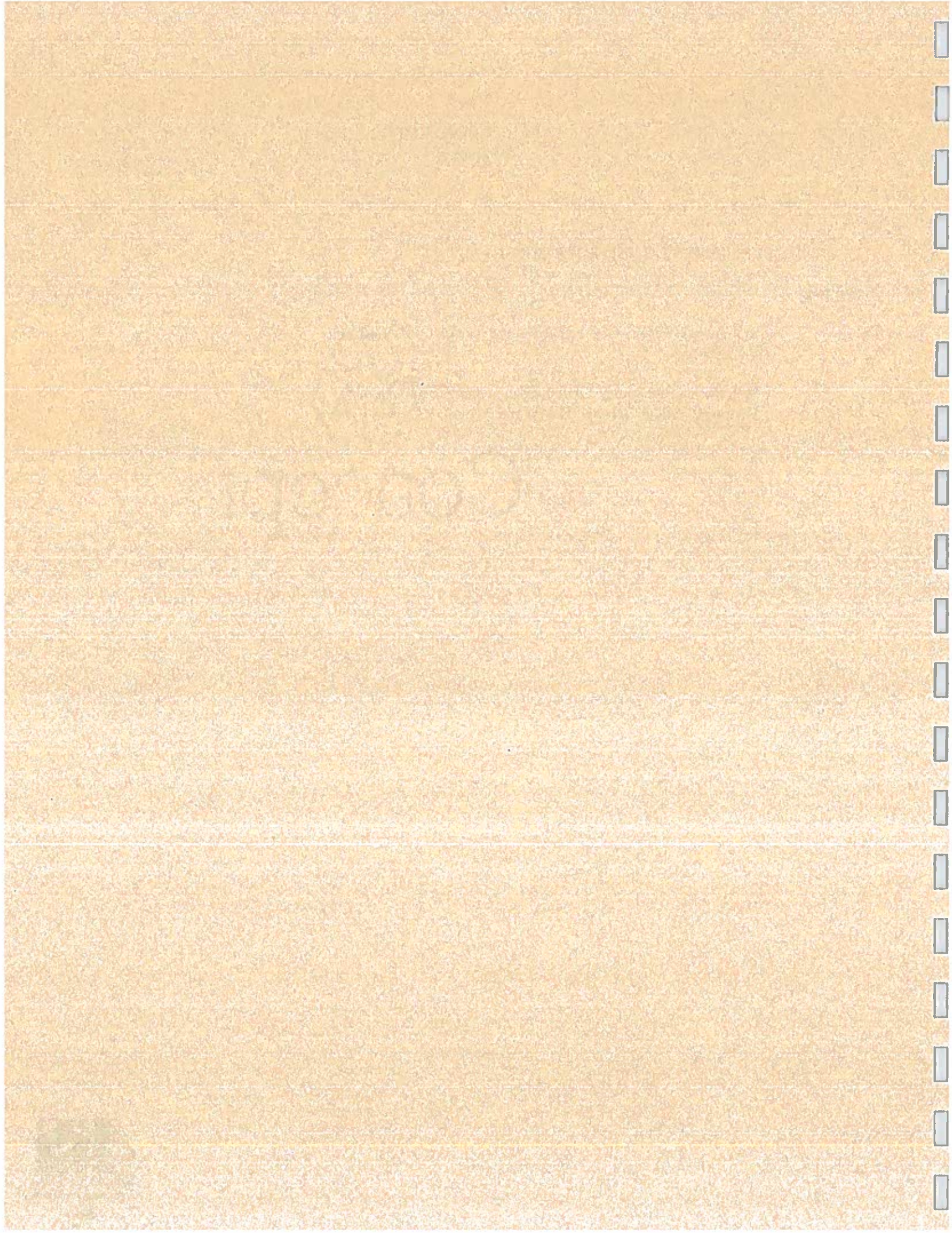
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**ALLISON KNAPP &
SIEKMANN, LTD.**

CERTIFIED PUBLIC ACCOUNTANTS

August 6, 2012

Board of Commissioners
Metro East Sanitary District
St. Clair and Madison Counties, Illinois

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System Enterprise Fund, a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois, as of and for the year ended March 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The prior year summarized comparative information has been derived from the District's March 31, 2011 financial statements and, in our report dated July 14, 2011, we expressed a qualified opinion due to the omission of the OPEB expense and obligation and disclosures on the Enterprise Fund's financial position, changes in financial position and cash flows.

We conducted our audit in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

2810 Frank Scott Parkway West, Ste. 704
Belleville, Illinois 62223-5007
(618) 233-2641 (618) 397-9300 FAX (618) 233-6334

P.O. Box 165 • 120 Mill Street
Bethalto, Illinois 62010-0165
(618) 377-2171 FAX (618) 377-2173

As discussed in Note 1A, the financial statements present only the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System Enterprise Fund and do not purport to, and do not present fairly the financial position of Metro East Sanitary District as of December 31, 2011 and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

The System has not recognized the other post-employment benefit (OPEB) expense or obligation which is required in accordance with U. S. generally accepted accounting principles and under Government Accounting Standards Board (GASB) Statement No. 45, to be recorded in government-wide financial statements and in 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.

In our opinion, except for the effects of the omission of the OPEB expense and obligation and disclosures noted in paragraph five, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System Enterprise Fund of the Metro East Sanitary District as of March 31, 2012, and the respective changes in financial position and cash flows, thereof, for the year then ended in conformity with U. S. generally accepted accounting principles.

U. S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 through 5 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 U. S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System's financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U. S. generally accepted auditing standards. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

Allison Knapp + Siekmann, Ltd.

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METRO EAST SANITARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2012

This section of the System's annual financial report presents an analysis of the System's financial performance during the fiscal year ended March 31, 2012. 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 Assets 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 Assets identifies the System's revenues and expenses for the fiscal years ended March 31, 2011 and 2012. This statement provides information on the System's operations over the past two fiscal years and 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 comparative 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 Assets (pages 6 and 7) and the Statement of Revenues, Expenses and Changes in Net Assets (pages 8 and 9) provide an indication of the System's financial condition and also indicate that the financial condition of the System improved during the last fiscal year. The System's net assets reflect the difference between assets and liabilities.

NET ASSETS

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

Table 1
Condensed Statement of Net Assets

	2012	2011	Dollar Change	Percentage Change
Assets				
Current and other assets	\$3,333,598	\$3,576,625	\$(243,027)	-6.79%
Capital assets	5,801,560	5,851,193	(49,633)	-0.85%
Total assets	9,135,158	9,427,818	(292,660)	-3.10%
Liabilities				
Current liabilities	553,403	1,041,310	(487,907)	-46.86%
Long-term debt	2,210,843	2,210,987	(144)	-0.01%
Total liabilities	2,764,246	3,252,297	(488,051)	-15.01%
Net assets				
Invested in capital assets, net of related debt	3,539,941	3,725,452	(185,511)	-4.98%
Restricted	41,562	46,922	(5,360)	-11.42%
Unrestricted	2,789,409	2,403,147	386,262	16.07%
Total net assets	\$6,370,912	\$6,175,521	\$ 195,391	3.16%

For more detailed information see the Statement of Net Assets (pages 6 and 7).

As the above table indicates, total assets decreased by \$292,660 from \$9,427,818 to \$9,135,158 during the fiscal year ended March 31, 2012. This is comprised of a decrease of \$243,027 in current and other assets and a decrease of \$49,633 in capital assets. The cash and cash equivalents, system customers, Illinois EPA loan agreement, and Granite City Regional Treatment Center (overpayment credit) are responsible for the decrease in the total assets.

Total liabilities reflect a decrease of \$488,051. The schedule indicates a decrease of \$487,907 in current liabilities. Significant changes in current liabilities included an increase of \$14,720 in amounts due to Metro East Sanitary District and \$111,054 in

Illinois EPA loan and \$97,420 in amounts due the Granite City Regional Treatment Center. Decreases included \$711,101 in accounts payable. Long-term debt decreased by \$144, which includes a decrease in accumulated unpaid vacation and sick pay of \$24,968 and an increase in the Illinois EPA loan of \$24,824.

Table 1 also indicates that total net assets increased by \$195,391 from \$6,175,521 to \$6,370,912. This increase is the result of a decrease of \$243,027 in current assets, decrease of \$49,633 in capital assets and decreases in liabilities of \$488,051.

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

	2012	2011	Dollar Change	Percent Change
Operating revenues	\$ 2,743,252	\$ 3,011,309	\$ (268,057)	-8.90%
Non-operating revenues	690,838	113,346	577,492	509.49%
Total revenue	3,434,090	3,124,655	309,435	9.90%
Depreciation expense	200,694	153,997	46,697	30.32%
Other operating expenses	3,038,005	2,552,010	485,995	19.04%
Total expenses	3,238,699	2,706,007	532,692	19.69%
Changes in net assets	195,391	418,648	(223,257)	-53.33%
Beginning net assets	6,175,521	5,756,873	418,648	7.27%
Ending net assets	\$ 6,370,912	\$ 6,175,521	\$ 195,391	3.16%

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items which impact the change in net assets. As the information in Table 2 indicates, there was an increase in net assets of \$195,391 from the previous year.

Table 2 indicates that the System's total revenues increased by \$309,435 or 9.90 percent to \$3,434,090 in the fiscal year ended March 31, 2012 from \$3,124,655 the prior year. The main increase in non-operating revenues was due to the sale of land to the Illinois Department of Transportation.

Total expenses increased by \$532,692 or 19.69 percent during the 2011/12 fiscal year. Increases in depreciation expense of \$46,697 or 30.32% and operating expenses of \$485,995 or 19.04 percent accounted for the increases during the 2011/12 fiscal year. The increase in operating expenses was due mostly to increases of \$40,270 in salaries, \$49,915 in employee benefits, \$187,556 for maintenance and repairs, and \$234,110 in secondary treatment expense.

CAPITAL ASSETS

As of March 31, 2012, the System's investment in capital assets totaled \$5,801,560, which is a decrease of \$49,633 or negative 0.85 percent below the capital asset balance of \$5,851,193 at March 31, 2011. 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>2012</u>	<u>2011</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land & right-of-ways	\$ 191,000	\$ 191,000	\$ -	0%
Buildings	3,323,798	3,323,798	-	0%
Equipment	2,834,384	2,523,898	310,486	12.30%
Office equipment	21,030	21,030	-	0%
Force main, trunk lines & treatment equipment	5,655,670	2,779,691	2,875,979	103.46%
Construction in progress	-	3,035,404	(3,035,404)	-100.00%
Subtotal	12,025,882	11,874,821	151,061	1.27%
Less Accumulated Depreciation	(6,224,322)	(6,023,628)	(200,694)	-3.33%
Total Capital Assets (net of depreciation)	<u>\$5,801,560</u>	<u>\$5,851,193</u>	<u>(\$49,633)</u>	<u>-0.85%</u>

Please refer to the accompanying financial statements for additional information.

LONG-TERM DEBT

As of March 31, 2012, the System's long-term debt is \$2,210,843 of which \$60,278 relates to compensated absences and \$2,150,565 is for 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 System continues to take proactive steps to increase sewage treatment collections. An agreement exists with Illinois American Water Company to disconnect water service for past due sewerage treatment bills to assist with the collection of operating expenses and to insure the long-term health of the System.

Also, the System has continued to work on various infiltration and specific customer BOD problems within the sewage system in hopes of reducing the treatment expenses being paid to the Granite City Regional Treatment Plant.

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.

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

STATEMENT OF NET ASSETS

March 31, 2012
(With Summarized Comparative Information for March 31, 2011)

	Business-Type Activities	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,862,716	\$ 1,884,577
Restricted assets		
Cash and cash equivalents		
203 Pump station	41,562	46,922
Accrued interest income	928	1,618
Receivables		
System customers	803,772	943,783
Illinois EPA loan agreement	-	676,137
Granite City Regional Treatment Center - overpayment credit	-	22,484
Loans to Metro East Sanitary District - related party	600,000	-
City of Venice - sewer break	23,897	-
Other	723	1,104
Capital assets		
Land	191,000	191,000
Other capital assets, net of depreciation	5,610,560	2,624,789
Construction in progress	-	3,035,404
Total assets	<u>9,135,158</u>	<u>9,427,818</u>
LIABILITIES		
Accounts payable	367,829	981,510
Due to Metro East Sanitary District	65,520	50,800
Noncurrent liabilities		
Due within one year	120,054	9,000
Due in more than one year		
Illinois EPA loan	2,150,565	2,125,741
Accrued sick and vacation pay	60,278	85,246
Total liabilities	<u>2,764,246</u>	<u>3,252,297</u>
NET ASSETS		
Investment in capital assets, net of related debt	3,539,941	3,725,452
Restricted for		
203 Pump station	41,562	46,922
Unrestricted	2,789,409	2,403,147
TOTAL NET ASSETS	<u>\$ 6,370,912</u>	<u>\$ 6,175,521</u>

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

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

STATEMENT OF ACTIVITIES

Year Ended March 31, 2012
(With Summarized Comparative Information for Year Ended March 31, 2011)

FUNCTIONS/PROGRAMS	2012			2011 Total
	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Business-Type Activities	
Business-type activities				
Sewer	\$ 3,238,699	\$ 2,743,252	\$ (495,447)	\$ 401,239
Total business-type activities	3,238,699	2,743,252	(495,447)	401,239
	General revenues			
	Sale of scrap			4,638
	Sale of land			-
	Investment income			12,771
	Total general revenues			17,409
	Change in net assets			418,648
	NET ASSETS - BEGINNING			5,756,873
	NET ASSETS - ENDING			\$ 6,175,521

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

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND

March 31, 2012
(With Summarized Comparative Information for March 31, 2011)

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,862,716	\$ 1,884,577
Accrued interest income	928	1,618
Receivables		
System customers	803,772	943,783
Illinois EPA loan agreement	-	676,137
Granite City Regional Treatment Center - overpayment credit	-	22,484
Loans to Metro East Sanitary District - related party	600,000	-
City of Venice - sewer break	23,897	-
Other	723	1,104
Total unrestricted current assets	<u>3,292,036</u>	<u>3,529,703</u>
Restricted assets		
Cash and cash equivalents		
203 Pump station	<u>41,562</u>	<u>46,922</u>
Total current assets	<u>3,333,598</u>	<u>3,576,625</u>
NONCURRENT ASSETS		
Capital assets		
Land and rights-of-way costs	191,000	191,000
Buildings	3,323,798	3,323,798
Equipment	2,834,384	2,523,898
Office equipment	21,030	21,030
Force main, trunk lines and treatment equipment	5,655,670	2,779,691
Construction in progress	-	3,035,404
	<u>12,025,882</u>	<u>11,874,821</u>
Less accumulated depreciation	<u>(6,224,322)</u>	<u>(6,023,628)</u>
Total noncurrent assets	<u>5,801,560</u>	<u>5,851,193</u>
Total assets	<u>9,135,158</u>	<u>9,427,818</u>

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EXHIBIT C

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STATEMENT OF NET ASSETS
PROPRIETARY FUND

(continued)

March 31, 2012

(With Summarized Comparative Information for March 31, 2011)

	2012	2011
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	270,409	981,510
Due to Metro East Sanitary District	65,520	50,800
Granite City Regional Treatment Center - additional liability	97,420	-
Current portion of long-term debt		
Illinois EPA loan	111,054	-
Accumulated unpaid vacation and sick pay	9,000	9,000
Total current liabilities	553,403	1,041,310
NONCURRENT LIABILITIES		
Illinois EPA loan	2,150,565	2,125,741
Accumulated unpaid vacation and sick pay	60,278	85,246
Total noncurrent liabilities	2,210,843	2,210,987
Total liabilities	2,764,246	3,252,297
NET ASSETS		
Restricted for		
203 Pump station	41,562	46,922
Unrestricted	6,329,350	6,128,599
TOTAL NET ASSETS	\$ 6,370,912	\$ 6,175,521

The accompanying notes are an integral part of these 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 NET ASSETS
PROPRIETARY FUND

Year Ended March 31, 2012
(With Summarized Comparative Information for Year Ended March 31, 2011)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sewer fees	\$ 2,719,188	\$ 3,003,565
Lien fees and miscellaneous charges	23,580	6,630
Miscellaneous revenues	484	1,114
 Total operating revenues	 <u>2,743,252</u>	 <u>3,011,309</u>
 OPERATING EXPENSES		
Salaries	597,959	557,689
Utilities	108,312	133,485
Telephone	9,019	7,218
Maintenance and repairs	329,698	142,142
Materials and supplies	2,320	3,037
Employer's FICA expense	47,561	38,627
Employer's IMRF expense	62,804	43,413
Unemployment compensation	7,879	4,121
Uniform allowance	1,957	2,772
Depreciation	200,694	153,997
Accounting fees	10,100	10,000
Engineering fees	38,531	24,418
Legal fees	22,976	34,566
Consulting fees	1,175	-
Office supplies	11,527	20,523
Printing and publishing	2,323	3,063
Credit card chargeback - E-pay	8,790	8,078
Insurance	65,520	50,830
Postage	43,636	43,200
Office space rental	12,000	12,000
Health and welfare	169,692	151,860
Life and disability insurance	1,300	1,180
Filing and lien fees	11,965	10,360
Secondary treatment expense	1,344,385	1,110,275
Illinois EPA permit fee	5,000	5,000

(continued on next page)

EXHIBIT D

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

(continued)

Year Ended March 31, 2012

(With Summarized Comparative Information for Year Ended March 31, 2011)

	2012	2011
OPERATING EXPENSES (continued)		
Computer system, support and software	7,333	7,294
Computer supplies	9,182	1,441
Website related costs	139	139
Travel and training	2,629	1,302
Collection fees	34,607	57,763
Alarm	2,551	2,788
Easements	650	463
Water usage and parcel data fees	6,644	8,847
Water turn-off fees	29,195	29,059
Credit reports	3,496	2,625
Equipment lease agreements	3,082	2,790
Water testing fees	6,768	9,132
Billing fees	1,019	-
203 Lift station expenses	10,692	6,800
Miscellaneous	3,589	3,710
Total operating expenses	3,238,699	2,706,007
Operating income (loss)	(495,447)	305,302
NONOPERATING REVENUES		
Commerce & Economic Opportunity - Direct Drive Grant	-	95,937
Sale of scrap	-	4,638
Sale of land	683,720	-
Interest income	7,118	12,771
Total nonoperating revenues	690,838	113,346
Increase in net assets	195,391	418,648
Net assets, beginning of year	6,175,521	5,756,873
NET ASSETS, END OF YEAR	\$ 6,370,912	\$ 6,175,521

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

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

Year Ended March 31, 2012
(With Summarized Comparative Information for Year Ended March 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$2,743,252	\$3,011,309
Payments to suppliers	(2,560,233)	(1,839,682)
Payments to and for employees	(885,895)	(795,710)
Net cash provided (used) by operating activities	\$ (702,876)	\$ 375,917
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Commerce & Economic Opportunity Grant	-	95,937
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(151,061)	(126,013)
Proceeds from additional Illinois EPA loans	191,405	1,365,684
Payments related to Illinois EPA loan	(55,527)	-
Proceeds from sale of land	683,720	-
Construction in progress	-	(1,271,628)
Net cash provided (used) by capital and related financing activities	668,537	(31,957)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	7,118	17,409
Net increase (decrease) in cash and cash equivalents	(27,221)	457,306
Cash and cash equivalents, beginning of year	1,931,499	1,474,193
CASH AND CASH EQUIVALENTS, END OF YEAR	\$1,904,278	\$1,931,499

(continued on next page)

EXHIBIT E
Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
(continued)

Year Ended March 31, 2012

(With Summarized Comparative Information for Year Ended March 31, 2011)

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (495,447)	\$ 305,302
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	\$ 200,694	\$ 153,997
Changes in assets and liabilities		
(Increase) decrease in assets		
Receivables		
Customers	140,011	(1,589)
Illinois EPA	676,137	(179,037)
Granite City Regional Treatment	22,484	33,455
Loans to Metro East Sanitary District - related party	(600,000)	-
City of Venice - sewer break	(23,897)	-
Other	381	(1,104)
Accrued interest receivable	690	1,278
Prepaid expenses	-	6,130
Increase (decrease) in liabilities		
Accounts payable	(613,681)	(4,466)
Due to Metro East Sanitary District	14,720	15,800
Accumulated unpaid vacation and sick pay	(24,968)	46,151
Total adjustments	(207,429)	70,615
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (702,876)</u>	<u>\$ 375,917</u>
CASH AND CASH EQUIVALENTS ACCOUNTED FOR AS FOLLOWS		
Unrestricted cash	\$1,862,716	\$1,884,577
Restricted cash	<u>41,562</u>	<u>46,922</u>
TOTAL AS ABOVE	<u>\$1,904,278</u>	<u>\$1,931,499</u>

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

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

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March 31, 2012

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

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

Note 1: Summary of Significant Accounting Policies

The Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System is a component unit of the Metro East Sanitary District. The financial statements of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (System) have been prepared in conformity with U. S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The System has elected to apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the System's accounting policies are described below.

A. Reporting Entity

The District has developed criteria to determine whether outside agencies with activities, which benefit the District, should be included within its financial reporting entity. The criteria for including organizations within the District's reporting entity, as set forth in GASB 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 Lansdowne Sewerage 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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report financial information for the Sewer 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

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

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.

The District, in these financial statements, reports only the District's Sewerage - Proprietary Fund.

C. Fund Accounting

The accounts of the District 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.

The Sewerage Fund is classified into one category: proprietary.

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). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds*, the District has chosen to apply all GASB pronouncements as well as those pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, to account for proprietary funds.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 District's sewer (proprietary) fund are charges to customers for sales and services.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 1: Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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. Cash and Investments

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.

F. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items/expenses.

G. Accounts Receivable and Allowance for Doubtful Accounts

The accounts receivable balances as presented in the accompanying financial statements are net of an allowance for doubtful accounts in the amount of \$300,000 and \$380,000 for the fiscal years ending March 31, 2012 and 2011, respectively.

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 District 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. Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 1: Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

	<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/Sick Pay (Compensated Absences)

The District 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.

J. Long-Term Obligations

In government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. 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.

L. Comparative Data

Comparative data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the System's financial position and operations.

M. Date of Management Evaluation

Management has evaluated subsequent events through August 6, 2012, the date on which the financial statements were available to be issued.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 2: Deposits and Investments

The District 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 District does not enter into any reverse repurchase agreements.

Deposits

At year-end, the carrying amount of the System's deposits totaled \$1,904,278 and bank balances totaled \$1,905,840. Of the bank balances, \$521,992 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$1,383,848 was covered by pledged collateral, which was held in the Sewerage System's name.

Investments

The System has no accounts, at March 31, 2012, which are considered to be investments required to be categorized by risk category.

Reconciliation to financial statements:

Exhibit A	<u>Deposits</u>
Cash and cash equivalents	\$1,862,716
Restricted cash and cash equivalents	<u>41,562</u>
Deposits Carrying Amounts	<u>\$ 1,904,278</u>

Note 3: Capital Assets

Capital asset activity for the year ended March 31, 2012 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	\$ 191,000	\$ -	\$ -	\$ 191,000
Construction in progress	<u>3,035,404</u>	<u>-</u>	<u>3,035,404</u>	<u>-</u>
Total capital assets not being depreciated	<u>3,226,404</u>	<u>-</u>	<u>3,035,404</u>	<u>191,000</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 3: Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
BUSINESS-TYPE ACTIVITIES (continued)				
Capital assets being depreciated				
Buildings	3,323,798	-	-	3,323,798
Equipment	2,523,898	310,486	-	2,834,384
Office equipment	21,030	-	-	21,030
Force main, trunk lines and treatment plant	2,779,691	2,875,979	-	5,655,670
Total capital assets being depreciated	8,648,417	3,186,465	-	11,834,882
Less accumulated depreciation	6,023,628	200,694	-	6,224,322
Total capital assets being depreciated, net	2,624,789	2,985,771	-	5,610,560
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 5,851,193</u>	<u>\$ 2,985,771</u>	<u>\$ 3,035,404</u>	<u>\$ 5,801,560</u>

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

BUSINESS-TYPE ACTIVITIES	
Sewer Fund	<u>\$ 200,694</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 200,694</u>

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, 2012 and the related fund where this debt is recorded on the accompanying financial statements:

Description and Purpose	Balance April 1, 2011	New Debt Issued	Debt Retired	Balance March 31, 2012	Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Water Fund/Sewer Funds					
IEPA Loan #1 - Water	\$ 2,125,741	\$ 191,405	\$ 55,527	\$ 2,261,619	\$ 111,054

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 4: Long-Term Debt (continued)

Summary and Discussion Relating to Debt Recorded on Accompanying Financial Statements
(continued)

Description and Purpose	Balance April 1, 2011	New Debt Issued	Debt Retired	Balance March 31, 2012	Due Within One Year
BUSINESS-TYPE ACTIVITIES (continued)					
Water/Sewer Funds - Compensated Absences					
Accumulated sick pay	94,246	-	24,968	69,278	9,000
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 2,219,987</u>	<u>\$ 191,405</u>	<u>\$ 80,495</u>	<u>\$ 2,330,897</u>	<u>\$ 120,054</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 is 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, 2012. The loan is a 20 year loan with an annual fixed rate of 0%. At March 31, 2012 no schedule of maturities is presented as the loan has not been completely finalized.

Note 5: Other Note Disclosures

A. 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.

B. Related Party Transactions

Lease of Office Space

The Lansdowne System leases office space on a monthly basis from the Metro East Sanitary District. Currently, monthly lease payments are \$1,000. No formal lease has been executed between the related parties. Therefore, an analysis of future minimum rental payments is inappropriate.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 5: Other Note Disclosures (continued)

B. Related Party Transactions (continued)

Due to Metro East Sanitary District

As of March 31, 2012 and 2011, the Sewerage System has an amount due to the Metro East Sanitary District totaling \$65,520 and \$50,800, respectively. This account represents various insurance costs relating to the Lansdowne System, which were paid by the District's Liability Insurance Fund.

Loans to Metro East Sanitary District - Related Party

During the current fiscal year the Sewer System made various loans totaling \$600,000 to the Metro East Sanitary District, a related party. Those loans are non-interest bearing and are considered current assets as they are expected to be repaid during the fiscal year ended March 31, 2013.

C. 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 Lansdowne 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 \$41,562 and \$46,922 at March 31, 2012 and 2011, respectively.

D. Risk Management

Description

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.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2012

Note 5: Other Note Disclosures (continued)

E. Rate Increase

The Lansdowne System increased its rates and began monthly billing for residential customers beginning with July service, which was billed in August 2010. The bi-monthly residential rate previously was \$14.00 for the first 500 cubic feet or less of usage plus \$2.80 for each additional 100 cubic feet of usage. The new monthly rate changed to \$8.00 for the first 200 cubic feet or less of usage plus \$3.30 per each additional 100 cubic feet of water usage. Beginning January 1, 2012 the rate increased to \$3.80 for usage above the minimum 200 cubic feet of water usage.

F. Construction Contract Commitments - IEPA

As of March 31, 2012 the Lansdowne Sewer System has completed a construction project for the replacement of a 24 inch sewer main totaling \$2,306,253 plus engineering costs. Funding for this project is being provided through the Illinois EPA as part of a loan/grant project (see Note 4 above).

G. Receivable from the City of Venice

The accompanying financial statements include a receivable of \$23,897 relating to costs incurred in repairing a sewer break along Bremen Avenue in the City of Venice. The break occurred in an area which was initially believed to be a District sewer line and later concluded to be a line owned by the City of Venice. The City of Venice is applying for a grant to provide funding and repayment to the Lansdowne Sewer System.

STATEMENTS OF REVENUES, EXPENSES
AND NET INCOME

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES				
Sewerage treatment charges	\$2,719,188	\$3,003,565	\$2,524,005	\$2,468,772
Court costs/lien fees/other	<u>24,064</u>	<u>7,744</u>	<u>21,776</u>	<u>11,644</u>
Total operating revenues	2,743,252	3,011,309	2,545,781	2,480,416
OPERATING EXPENSES	<u>3,238,699</u>	<u>2,706,007</u>	<u>2,298,704</u>	<u>2,898,609</u>
Operating income (loss)	<u>(495,447)</u>	<u>305,302</u>	<u>247,077</u>	<u>(418,193)</u>
NONOPERATING REVENUES AND (EXPENSES)				
Interest income	7,118	12,771	21,119	38,803
Bond interest	-	-	-	-
Bond handling charges	-	-	-	-
Sale of land/scrap	683,720	4,638	-	-
Commerce & Economic Opportunity Grant	-	95,937	-	-
IEMA/FEMA grant/reimbursement	<u>-</u>	<u>-</u>	<u>721,854</u>	<u>18,299</u>
Total nonoperating revenues and (expenses)	<u>690,838</u>	<u>113,346</u>	<u>742,973</u>	<u>57,102</u>
NET INCOME (LOSS)	<u>\$ 195,391</u>	<u>\$ 418,648</u>	<u>\$ 990,050</u>	<u>\$ (361,091)</u>

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

STATEMENTS OF REVENUES, EXPENSES
AND NET INCOME

Last Ten Fiscal Years

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 1,670,158	\$ 1,657,979	\$ 1,792,197	\$ 1,713,160	\$ 1,662,701	\$ 1,426,121
13,248	13,892	20,447	24,401	23,101	13,531
1,683,406	1,671,871	1,812,644	1,737,561	1,685,802	1,439,652
2,091,812	1,903,600	1,898,327	1,872,988	2,095,555	1,878,567
<u>(408,406)</u>	<u>(231,729)</u>	<u>(85,683)</u>	<u>(135,427)</u>	<u>(409,753)</u>	<u>(438,915)</u>
56,179	48,784	30,762	14,274	16,876	30,818
-	-	-	(4,275)	(8,550)	(12,375)
-	-	-	(813)	(790)	(838)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
56,179	48,784	30,762	9,186	7,536	17,605
<u>\$ (352,227)</u>	<u>\$ (182,945)</u>	<u>\$ (54,921)</u>	<u>\$ (126,241)</u>	<u>\$ (402,217)</u>	<u>\$ (421,310)</u>

STATEMENT 2

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

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
BUDGET (GAAP BASIS) AND ACTUAL

Year Ended March 31, 2012

	Budget	Actual
OPERATING REVENUES		
Sewer fees	\$ 3,100,000	\$ 2,719,188
Lien fees and miscellaneous revenues	7,500	24,064
Total operating revenues	3,107,500	2,743,252
OPERATING EXPENSES		
Salaries	575,000	597,959
Utilities	140,000	108,312
Telephone	7,500	9,019
Maintenance and repairs		
Sewer line	400,000	198,434
Building	5,000	18,228
Equipment	120,000	110,183
Vehicle	3,000	2,853
Materials and supplies	-	2,320
Employer's payroll expense		
FICA	44,000	47,561
IMRF	62,500	62,804
Unemployment compensation	4,300	7,879
Uniform allowance	3,000	1,957
Depreciation	-	200,694
Fixed asset purchases		
Software	1,250	-
New computers	5,000	-
Vehicles - equipment	200,000	-
Buildings	35,000	-
Auditing and accounting fees	10,000	10,100
Engineering fees	200,000	38,531
Legal fees	35,000	22,976
Consulting fees	-	1,175
Office supplies	15,000	11,527
Printing and publishing	5,000	2,323
Credit card chargeback - E-pay	10,000	8,790
Insurance	55,000	65,520
Postage	49,000	43,636

(continued on next page)

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
BUDGET (GAAP BASIS) AND ACTUAL
(continued)
Year Ended March 31, 2012

	Budget	Actual
OPERATING EXPENSES (continued)		
Office space rental	12,000	12,000
Health and welfare	180,000	169,692
Life and disability insurance	1,500	1,300
Filing and lien fees	10,500	11,965
Secondary treatment expense	1,100,000	1,344,385
Illinois EPA permits	5,000	5,000
Computer system, support	7,500	7,333
Computer supplies	1,500	9,182
Website related costs	170	139
Computer system training	1,500	-
Travel and training	1,500	2,629
Collection fees	60,000	34,607
Alarm	42,000	2,551
Easements	500	650
Water usage and parcel data fees	9,000	6,644
Water turn-off fees	30,000	29,195
Credit reports	3,000	3,496
Equipment lease agreements	2,800	3,082
Water testing fees	10,000	6,768
Billing fees	-	1,019
203 Sinking fund expenses	-	10,692
Miscellaneous	4,000	3,589
Economic Stimulus loan/grant	200,000	-
Economic Stimulus loan repayment	75,000	-
Total operating expenses	3,742,020	3,238,699
Operating income (loss)	(634,520)	(495,447)
NONOPERATING REVENUES		
Interest income	13,000	7,118
Sale of land	-	683,720
Economic Stimulus grant income	200,000	-
Increase (decrease) in net assets	\$ (421,520)	195,391
Net assets, beginning of year		6,175,521
NET ASSETS, END OF YEAR		\$ 6,370,912

