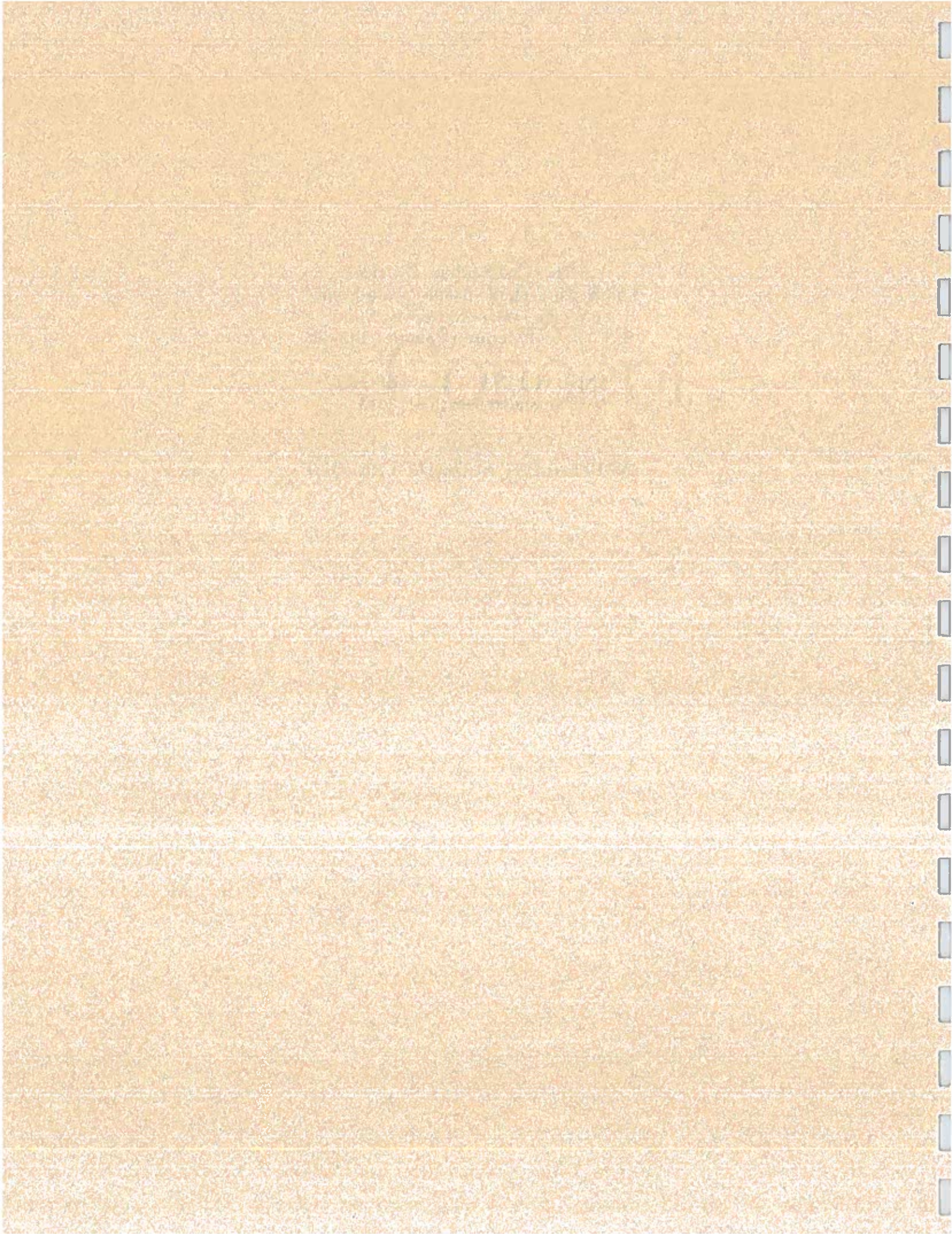


**Metro East Sanitary District
Lansdowne Trunk - Madison and Venice
Sewerage System Enterprise Fund
St. Clair and Madison Counties, Illinois**

**ANNUAL FINANCIAL REPORT
Year Ended March 31, 2013**

**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, 2013

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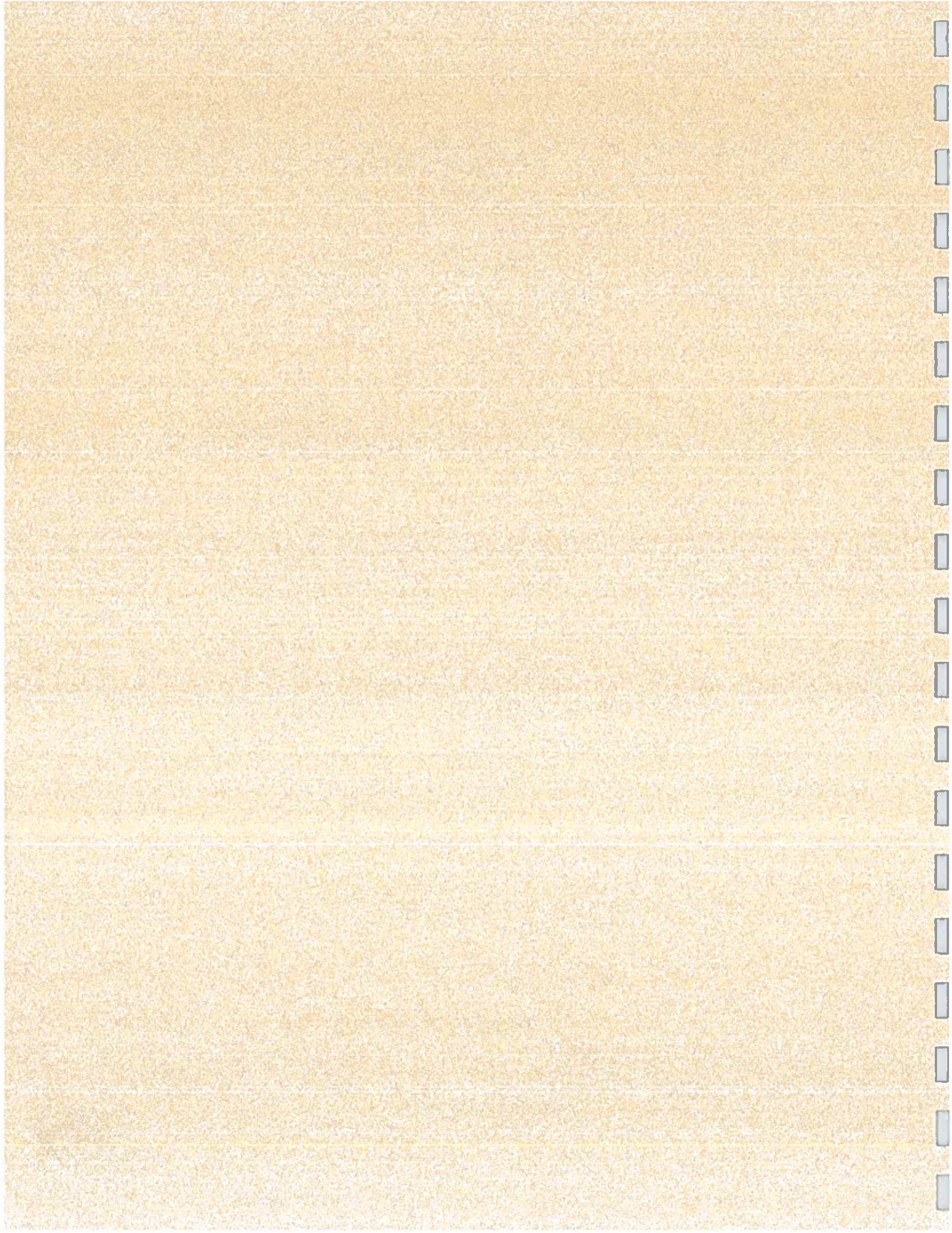


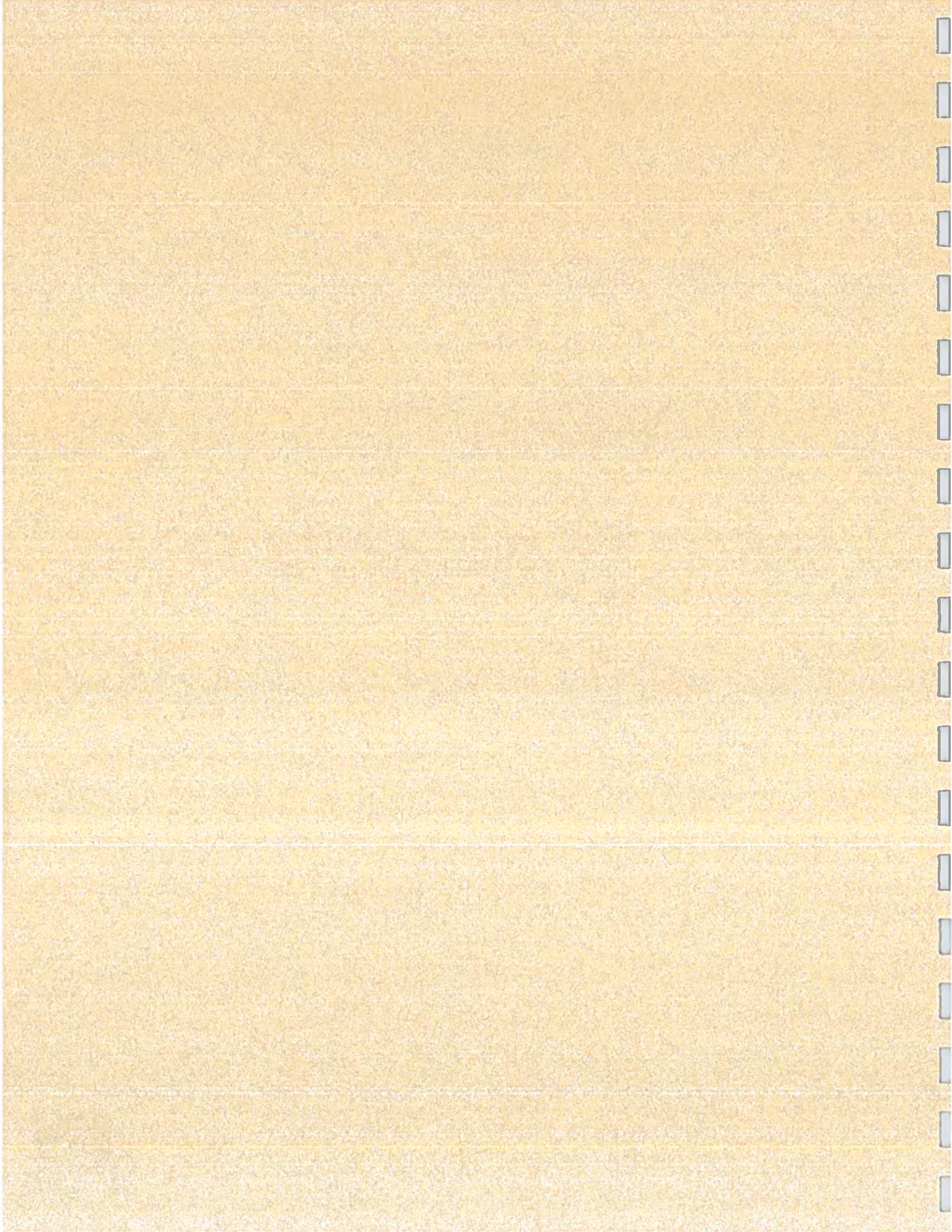
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CERTIFIED PUBLIC ACCOUNTANTS

July 30, 2013

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 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.

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Belleville, Illinois 62223-5007
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Bethalto, Illinois 62010-0165
(618) 377-2171 FAX (618) 377-2173

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 Sewerage 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 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 respective financial position 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 March 31, 2013, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with U. S. generally accepted accounting principles.

Other Matters

Prior Year Summarized Comparative Information

The prior year summarized comparative information has been derived from the District's March 31, 2012 financial statements and, in our report dated August 6, 2012, 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.

Required Supplementary Information

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.

Supplementary Information

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 basic financial statements. The accompanying supplementary 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 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 basic financial statements as a whole.

We also have previously audited, in accordance with U. S. generally accepted auditing standards the District's basic financial statements for the years ended March 31, 2010 and 2011, which are not presented with the accompanying financial statements and we expressed an unmodified opinion on the respective financial position of the Metro East Sanitary District, Lansdowne Truck - Madison and Venice Sewerage Systems Enterprise Fund and the respective changes in financial position and cash flows, thereof, for the year ended March 31, 2010. Our opinion for the year ended March 31, 2011 was qualified with respect to the missing recognition matter described in the above Basis for Qualified Opinions paragraph. These audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Statement of Revenues, Expenses and Net Income - Last Four Fiscal Years is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the prior year financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 U. S. generally accepted auditing standards. In our opinion, the prior year Statement of Revenues, Expenses and Net Income - Last Four Fiscal Years is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Allison Knapp & Siekmann, Ltd.

Belleville, Illinois

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METRO EAST SANITARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2013

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, 2013. 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 for the fiscal years ended March 31, 2012 and 2013. 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 Position (pages 6 and 7) and the Statement of Revenues, Expenses and Changes in Net Position (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 position reflects the difference between assets and liabilities.

NET POSITION

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

Table 1
Condensed Statement of Net Position

	2013	2012	Dollar Change	Percentage Change
Assets				
Current and other assets	\$3,117,583	\$3,333,598	\$(216,015)	-6.48%
Capital assets	5,896,255	5,801,560	94,695	1.63%
Total assets	9,013,838	9,135,158	(121,320)	-1.33%
Liabilities				
Current liabilities	523,797	553,403	(29,606)	-5.35%
Long-term debt	2,112,274	2,210,843	(98,569)	-4.46%
Total liabilities	2,636,071	2,764,246	(128,175)	-4.64%
Net Position				
Invested in capital assets, net of related debt	3,745,691	3,539,941	205,750	5.81%
Restricted	38,117	41,562	(3,445)	-8.29%
Unrestricted	2,593,959	2,789,409	(195,450)	-7.01%
Total net position	\$6,377,767	\$6,370,912	\$ 6,855	0.11%

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

As the above table indicates, total assets decreased by \$121,320 from \$9,135,158 to \$9,013,838 during the fiscal year ended March 31, 2013. This is comprised of a decrease of \$216,015 in current and other assets and an increase of \$94,695 in capital assets.

Total liabilities reflect a decrease of \$128,175. The schedule indicates a decrease of \$29,606 in current liabilities. Significant changes in total liabilities included an increase of \$46,003 in accounts payable, an increase of \$17,480 due to Metro East Sanitary District and a decrease of \$97,420 in amounts due the Granite City Regional Treatment Center. Long-term debt decreased by \$98,569, which includes an increase in

accumulated unpaid vacation and sick pay of \$16,817 and a decrease in the Illinois EPA loan of \$115,386.

Table 1 also indicates that total net position increased by \$6,855 from \$6,370,912 to \$6,377,767. This increase is the result of a decrease of \$216,015 in current assets, an increase of \$94,695 in capital assets and decreases in liabilities of \$128,175.

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

	2013	2012	Dollar Change	Percent Change
Operating revenues	\$ 2,929,562	\$ 2,743,252	\$ 186,310	6.79%
Non-operating revenues	3,895	690,838	(686,943)	-99.44%
Total revenues	2,933,457	3,434,090	(500,633)	-14.58%
Depreciation expense	205,347	200,694	4,653	2.32%
Other operating expenses	2,721,255	3,038,005	(316,750)	-10.43%
Total expenses	2,926,602	3,238,699	(312,097)	-9.64%
Changes in net position	6,855	195,391	(188,536)	-96.49%
Beginning net position	6,370,912	6,175,521	195,391	3.16%
Ending net position	\$ 6,377,767	\$ 6,370,912	\$ 6,855	0.11%

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 information in Table 2 indicates, there was an increase in net position of \$6,855 from the previous year.

Table 2 indicates that the System's total revenues decreased by \$500,633 or 14.58 percent to \$2,933,457 in the fiscal year ended March 31, 2013 from \$3,434,090 the prior year. The main decrease in non-operating revenues was the prior year sale of land to the Illinois Department of Transportation.

Total expenses decreased by \$312,097 or 9.64 percent during the 2012/13 fiscal year. Increases in depreciation expense of \$4,653 or 2.32% and decreases of operating expenses of \$316,750 or 10.43 percent accounted for the decreases during the 2012/13 fiscal year. The decrease in operating expenses was due mostly to decreases of \$192,128 in maintenance and repairs, and \$227,825 in secondary treatment expense.

CAPITAL ASSETS

As of March 31, 2013, the System's investment in capital assets totaled \$5,896,255, which is an increase of \$94,695 or 1.63 percent above the capital asset balance of \$5,801,560 at

Management's Discussion & Analysis

March 31, 2012. 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>2013</u>	<u>2012</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land & rights-of-way	\$ 191,000	\$ 191,000	\$ -	0%
Buildings	3,323,798	3,323,798	-	0%
Equipment	2,871,978	2,834,384	37,594	1.33%
Office equipment	21,030	21,030	-	0%
Force main, trunk lines & treatment equipment	<u>5,918,118</u>	<u>5,655,670</u>	<u>262,448</u>	<u>4.64%</u>
Subtotal	12,325,924	12,025,882	300,042	2.49%
Less Accumulated Depreciation	<u>(6,429,669)</u>	<u>(6,224,322)</u>	<u>(205,347)</u>	<u>-3.30%</u>
Total Capital Assets (net of depreciation)	<u>\$5,896,255</u>	<u>\$5,801,560</u>	<u>\$94,695</u>	<u>1.63%</u>

Please refer to the accompanying financial statements for additional information.

LONG-TERM DEBT

As of March 31, 2013, the System's long-term debt is \$2,112,274 of which \$77,095 relates to compensated absences and \$2,035,179 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 revenues 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 POSITION

March 31, 2013
(With Summarized Comparative Information for March 31, 2012)

	Business-Type Activities	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 2,293,414	\$ 1,862,716
Investments	5,948	-
Restricted assets		
Cash and cash equivalents		
203 Pump station	38,117	41,562
Accrued interest income	614	928
Receivables		
System customers	754,530	803,772
Loans to Metro East Sanitary District - related party	-	600,000
City of Venice - sewer break	23,856	23,897
Other	1,104	723
Capital assets		
Land	191,000	191,000
Other capital assets, net of depreciation	5,705,255	5,610,560
Total assets	<u>9,013,838</u>	<u>9,135,158</u>
LIABILITIES		
Accounts payable	316,412	367,829
Due to Metro East Sanitary District	83,000	65,520
Noncurrent liabilities		
Due within one year	124,385	120,054
Due in more than one year		
Illinois EPA loan	2,035,179	2,150,565
Accrued sick and vacation pay	77,095	60,278
Total liabilities	<u>2,636,071</u>	<u>2,764,246</u>
NET POSITION		
Net investment in capital assets	3,745,691	3,539,941
Restricted for		
203 Pump station	38,117	41,562
Unrestricted	2,593,959	2,789,409
TOTAL NET POSITION	<u>\$ 6,377,767</u>	<u>\$ 6,370,912</u>

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

EXHIBIT B

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

STATEMENT OF ACTIVITIES

Year Ended March 31, 2013
(With Summarized Comparative Information for Year Ended March 31, 2012)

	2013		Net (Expenses) Revenues and Changes in Net Assets	2012 Total
	Expenses	Program Revenues Charges for Services	Business-Type Activities	
FUNCTIONS/PROGRAMS				
Business-type activities				
Sewer	\$ 2,926,602	\$ 2,929,562	\$ 2,960	\$ (495,447)
Total business-type activities	2,926,602	2,929,562	2,960	(495,447)
General revenues				
Sale of land			-	683,720
Investment income			3,895	7,118
Total general revenues			3,895	690,838
Change in net assets			6,855	195,391
NET POSITION - BEGINNING			6,370,912	6,175,521
NET POSITION - ENDING			\$ 6,377,767	\$ 6,370,912

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 POSITION
PROPRIETARY FUND

March 31, 2013
(With Summarized Comparative Information for March 31, 2012)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,293,414	\$ 1,862,716
Investments	5,948	-
Accrued interest income	614	928
Receivables		
System customers	754,530	803,772
Loans to Metro East Sanitary District - related party	-	600,000
City of Venice - sewer break	23,856	23,897
Other	1,104	723
Total unrestricted current assets	3,079,466	3,292,036
Restricted assets		
Cash and cash equivalents		
203 Pump station	38,117	41,562
Total current assets	3,117,583	3,333,598
NONCURRENT ASSETS		
Capital assets		
Land and rights-of-way costs	191,000	191,000
Buildings	3,323,798	3,323,798
Equipment	2,871,978	2,834,384
Office equipment	21,030	21,030
Force main, trunk lines and treatment equipment	5,918,118	5,655,670
	12,325,924	12,025,882
Less accumulated depreciation	(6,429,669)	(6,224,322)
Total noncurrent assets	5,896,255	5,801,560
Total assets	9,013,838	9,135,158

(continued on next page)

EXHIBIT C

Page 2

STATEMENT OF NET POSITION
PROPRIETARY FUND

(continued)

March 31, 2013

(With Summarized Comparative Information for March 31, 2012)

	<u>2013</u>	<u>2012</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	316,412	270,409
Due to Metro East Sanitary District	83,000	65,520
Granite City Regional Treatment Center - additional liability	-	97,420
Current portion of long-term debt		
Illinois EPA loan	115,385	111,054
Accumulated unpaid vacation and sick pay	<u>9,000</u>	<u>9,000</u>
Total current liabilities	<u>523,797</u>	<u>553,403</u>
NONCURRENT LIABILITIES		
Illinois EPA loan	2,035,179	2,150,565
Accumulated unpaid vacation and sick pay	<u>77,095</u>	<u>60,278</u>
Total noncurrent liabilities	<u>2,112,274</u>	<u>2,210,843</u>
Total liabilities	<u>2,636,071</u>	<u>2,764,246</u>
NET POSITION		
Net investment in capital assets	3,745,691	3,539,941
Restricted for		
203 Pump station	38,117	41,562
Unrestricted	<u>2,593,959</u>	<u>2,789,409</u>
TOTAL NET POSITION	<u>\$ 6,377,767</u>	<u>\$ 6,370,912</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 REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND

Year Ended March 31, 2013
(With Summarized Comparative Information for Year Ended March 31, 2012)

	2013	2012
OPERATING REVENUES		
Sewer fees	\$ 2,883,545	\$ 2,719,188
Lien fees and miscellaneous charges	45,881	23,580
Miscellaneous revenues	136	484
Total operating revenues	2,929,562	2,743,252
OPERATING EXPENSES		
Salaries	751,668	597,959
Utilities	82,525	108,312
Telephone	8,536	9,019
Maintenance and repairs	137,570	329,698
Materials and supplies	453	2,320
Employer's FICA expense	55,975	47,561
Employer's IMRF expense	76,002	62,804
Unemployment compensation	11,117	7,879
Uniform allowance	603	1,957
Depreciation	205,347	200,694
Accounting fees	10,300	10,100
Engineering fees	23,681	38,531
Legal fees	15,810	22,976
Consulting fees	-	1,175
Office supplies	18,885	11,527
Printing and publishing	1,306	2,323
Credit card chargeback - E-pay	9,398	8,790
Insurance	86,330	65,520
Postage	43,995	43,636
Office space rental	12,000	12,000
Group insurance	139,078	169,692
Life and disability insurance	-	1,300
Filing and lien fees	9,990	11,965
Secondary treatment expense	1,116,560	1,344,385
Illinois EPA permit fee	5,000	5,000

(continued on next page)

EXHIBIT D

Page 2

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

(continued)

Year Ended March 31, 2013

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

	2013	2012
OPERATING EXPENSES (continued)		
Computer system, support and software	688	7,333
Computer supplies	11,065	9,182
Website related costs	181	139
Travel and training	250	2,629
Collection fees	30,681	34,607
Alarm	2,544	2,551
Lift station monitoring	3,325	-
Easements	450	650
Water usage and parcel data fees	9,695	6,644
Water turn-off fees	25,425	29,195
Credit reports	2,039	3,496
Equipment lease agreements	2,680	3,082
Water testing fees	6,560	6,768
Billing fees	766	1,019
203 Lift station expenses	3,621	10,692
Miscellaneous	4,503	3,589
Total operating expenses	2,926,602	3,238,699
Operating income (loss)	2,960	(495,447)
NONOPERATING REVENUES		
Sale of land	-	683,720
Interest income	3,895	7,118
Total nonoperating revenues	3,895	690,838
Increase in net position	6,855	195,391
Net position, beginning of year	6,370,912	6,175,521
NET POSITION, END OF YEAR	\$ 6,377,767	\$ 6,370,912

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, 2013
(With Summarized Comparative Information for Year Ended March 31, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,929,562	\$ 2,743,252
Payments to suppliers	(1,055,319)	(2,560,233)
Payments to and for employees	(1,033,840)	(885,895)
Net cash provided (used) by operating activities	\$ 840,403	\$ (702,876)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
None	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(300,042)	(151,061)
Proceeds from additional Illinois EPA loans	-	191,405
Payments related to Illinois EPA loan	(111,055)	(55,527)
Proceeds from sale of land	-	683,720
Net cash provided (used) by capital and related financing activities	(411,097)	668,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(5,948)	-
Interest earned on investments	3,895	7,118
Net cash provided (used) by investing activities	(2,053)	7,118
Net increase (decrease) in cash and cash equivalents	427,253	(27,221)
Cash and cash equivalents, beginning of year	1,904,278	1,931,499
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,331,531	\$ 1,904,278

(continued on next page)

EXHIBIT E
Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
(continued)

Year Ended March 31, 2013

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

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 2,960	\$ (495,447)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	\$ 205,347	\$ 200,694
Changes in assets and liabilities		
(Increase) decrease in assets		
Receivables		
Customers	49,242	140,011
Illinois EPA	-	676,137
Granite City Regional Treatment	-	22,484
Loans to Metro East Sanitary		
District - related party	600,000	(600,000)
City of Venice - sewer break	41	(23,897)
Other	(381)	381
Accrued interest receivable	314	690
Increase (decrease) in liabilities		
Accounts payable	46,003	(613,681)
Due to Metro East Sanitary District	17,480	14,720
Granite City Regional Treatment - additional liability	(97,420)	-
Accumulated unpaid vacation and sick pay	16,817	(24,968)
Total adjustments	837,443	(207,429)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 840,403	\$ (702,876)
CASH AND CASH EQUIVALENTS ACCOUNTED FOR AS FOLLOWS		
Unrestricted cash	\$ 2,293,414	\$ 1,862,716
Restricted cash	38,117	41,562
TOTAL AS ABOVE	\$ 2,331,531	\$ 1,904,278

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

INDEX TO NOTES

March 31, 2013

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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, 2013

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 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 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 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 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.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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).

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. 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.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

(continued)

March 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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 \$250,000 and \$300,000 for the fiscal years ending March 31, 2013 and 2012, 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:

	Years
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.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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. 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.

L. 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.

M. 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. However, complete comparative data has not been presented since this inclusion would make the statements unduly complex and difficult to read.

N. Date of Management Evaluation

Management has evaluated subsequent events through July 30, 2013, the date on which the financial statements were available to be issued.

O. New GASB Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 1: Summary of Significant Accounting Policies (continued)

O. New GASB Pronouncements (continued)

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and New Position, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for reporting some deferred outflows of resources and deferred inflows of resources and has adopted a change of "net assets" to "net position". The District has implemented this reporting for the year ended March 31, 2013. The District did not have any deferred outflows or inflows of resources that qualify under the guidance of GASB Statement No. 63 to report for the year ended March 31, 2013.

For the year ended March 31, 2014 the District will be adopting GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for periods beginning after December 15, 2012, which will require the reclassification of some assets and liabilities to deferred outflows and inflows of resources. In addition, GASB Statement No. 65 will require the removal of bond issuance costs from assets in the government-wide and proprietary fund financial statements as a change in accounting standards.

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 \$1,873,827 and bank balances totaled \$1,882,056. Of the bank balances, \$177,470 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$1,704,586 was covered by pledged collateral, which was held in the Sewerage System's name.

Investments

The System's investments are categorized as either (1) insured or registered or for which the securities are held by the System or its agent in the System's name, (2) uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 2: Deposits and Investments (continued)

	Categories			Carrying Amount	Fair Value
	1	2	3		
Common stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,948</u>	\$ 5,948	<u>\$ 3,863</u>
Investment not subject to categorization: Illinois Funds				<u>457,704</u>	
Total investments				463,652	
Total deposits (above)				<u>1,873,827</u>	
TOTAL DEPOSITS AND INVESTMENTS				<u>\$ 2,337,479</u>	

Reconciliation to financial statements:

	Deposits	Investments	Total
Exhibit A			
Cash and cash equivalents	\$2,293,414	\$ -	\$2,293,414
Investments	-	5,948	5,948
Restricted cash and cash equivalents	<u>38,117</u>	<u>-</u>	<u>38,117</u>
Deposits and Investments Carrying Amounts	<u>\$ 2,331,531</u>	<u>\$ 5,948</u>	<u>\$ 2,337,479</u>

Note 3: Capital Assets

Capital asset activity for the year ended March 31, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
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	2,834,384	37,594	-	2,871,978

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 3: Capital Assets (continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
BUSINESS-TYPE ACTIVITIES (continued)				
Capital assets being depreciated (continued)				
Office equipment	21,030	-	-	21,030
Force main, trunk lines and treatment plant	<u>5,655,670</u>	<u>262,448</u>	<u>-</u>	<u>5,918,118</u>
Total capital assets being depreciated	11,834,882	300,042	-	12,134,924
Less accumulated depreciation	<u>6,224,322</u>	<u>205,347</u>	<u>-</u>	<u>6,429,669</u>
Total capital assets being depreciated, net	<u>5,610,560</u>	<u>94,695</u>	<u>-</u>	<u>5,705,255</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 5,801,560</u>	<u>\$ 94,695</u>	<u>\$ -</u>	<u>\$ 5,896,255</u>

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

BUSINESS-TYPE ACTIVITIES	
Sewer Fund	<u>\$ 205,347</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 205,347</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, 2013 and the related fund where this debt is recorded on the accompanying financial statements:

<u>Description and Purpose</u>	<u>Balance April 1, 2012</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>Balance March 31, 2013</u>	<u>Due Within One Year</u>
BUSINESS-TYPE ACTIVITIES					
Water/Sewer Funds					
IEPA Loan #1 - Water	<u>\$ 2,261,619</u>	<u>\$ -</u>	<u>\$ 111,055</u>	<u>\$ 2,150,564</u>	<u>\$ 115,385</u>
Total Water/Sewer Funds	2,261,619	-	111,055	2,150,564	115,385

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 4: Long-Term Debt (continued)

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

Description and Purpose	Balance April 1, 2012	New Debt Issued	Debt Retired	Balance March 31, 2013	Due Within One Year
BUSINESS-TYPE ACTIVITIES (continued)					
Water/Sewer Funds - Compensated Absences					
Accumulated sick pay	69,278	16,817	-	86,095	9,000
Total Business-Type Activities	<u>\$ 2,330,897</u>	<u>\$ 16,817</u>	<u>\$ 111,055</u>	<u>\$ 2,236,659</u>	<u>\$ 124,385</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, 2013. 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, 2013 is as follows:

Year Ending March 31,	Principal	Interest	Total
2014	\$ 115,385.43	\$ -	\$ 115,385.43
2015	119,716.40	-	119,716.40
2016	119,716.40	-	119,716.40
2017	119,716.40	-	119,716.40
2018	119,716.40	-	119,716.40
2019	119,716.40	-	119,716.40
2020	119,716.40	-	119,716.40
2021	119,716.40	-	119,716.40
2022	119,716.40	-	119,716.40
2023	119,716.40	-	119,716.40
2024	119,716.40	-	119,716.40
2025	119,716.40	-	119,716.40
2026	119,716.40	-	119,716.40
2027	119,716.40	-	119,716.40
2028	119,716.40	-	119,716.40
2029	119,716.40	-	119,716.40
2030	119,716.40	-	119,716.40
2031	119,716.40	-	119,716.40
	<u>\$ 2,150,564.23</u>	<u>\$ -</u>	<u>\$ 2,150,564.23</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

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.

Due to Metro East Sanitary District

As of March 31, 2013 and 2012, the Sewerage System has an amount due to the Metro East Sanitary District totaling \$83,000 and \$65,520, respectively. This account represents various insurance costs relating to the Lansdowne System, which were paid by the District's Liability Insurance Fund.

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 \$38,117 and \$41,562 at March 31, 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS
(continued)
March 31, 2013

Note 5: Other Note Disclosures (continued)

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.

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. Receivable from the City of Venice

The accompanying financial statements include a receivable of \$23,856 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.

STATEMENT 1

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 Four Fiscal Years

	2013	2012	2011	2010
OPERATING REVENUES				
Sewerage treatment charges	\$ 2,883,545	\$ 2,719,188	\$ 3,003,565	\$ 2,524,005
Court costs/lien fees/other	46,017	24,064	7,744	21,776
Total operating revenues	2,929,562	2,743,252	3,011,309	2,545,781
OPERATING EXPENSES	2,926,602	3,238,699	2,706,007	2,298,704
Operating income (loss)	2,960	(495,447)	305,302	247,077
NONOPERATING REVENUES AND (EXPENSES)				
Interest income	3,895	7,118	12,771	21,119
Bond interest	-	-	-	-
Bond handling charges	-	-	-	-
Sale of land/scrap	-	683,720	4,638	-
Commerce & Economic Opportunity Grant	-	-	95,937	-
IEMA/FEMA grant/reimbursement	-	-	-	721,854
Total nonoperating revenues and (expenses)	3,895	690,838	113,346	742,973
NET INCOME	\$ 6,855	\$ 195,391	\$ 418,648	\$ 990,050

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 (GAAP BASIS) AND ACTUAL

Year Ended March 31, 2013

	Budget	Actual
OPERATING REVENUES		
Sewer fees	\$ 2,902,600	\$ 2,883,545
Lien fees and miscellaneous revenues	27,000	46,017
Total operating revenues	2,929,600	2,929,562
OPERATING EXPENSES		
Salaries	645,000	751,668
Utilities	120,000	82,525
Telephone	7,500	8,536
Maintenance and repairs		
Sewer line	200,000	34,308
Building	20,000	36,108
Equipment	75,000	60,938
Vehicle	4,000	6,216
Materials and supplies	-	453
Employer's payroll expense		
FICA	49,000	55,975
IMRF	65,000	76,002
Unemployment compensation	15,000	11,117
Uniform allowance	1,500	603
Depreciation	-	205,347
Fixed asset purchases		
Software	1,250	-
New computers	3,000	-
Vehicles - equipment	60,000	-
Pump alarms - Central monitoring system	75,000	-
Auditing and accounting fees	13,000	10,300
Engineering fees	40,000	23,681
Legal fees	30,000	15,810
Office supplies	12,000	18,885
Printing and publishing	2,500	1,306
Credit card chargeback - E-pay	10,000	9,398
Insurance	65,520	86,330
Postage	49,000	43,995

(continued on next page)

STATEMENT 2

Page 2

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUDGET (GAAP BASIS) AND ACTUAL
(continued)
Year Ended March 31, 2013

	Budget	Actual
OPERATING EXPENSES (continued)		
Office space rental	12,000	12,000
Group insurance	130,000	139,078
Filing and lien fees	12,000	9,990
Secondary treatment expense	1,300,000	1,116,560
Illinois EPA permits	5,000	5,000
Computer system, support	7,500	688
Computer supplies	6,000	11,065
Website related costs	170	181
Computer system training	1,500	-
Travel and training	3,000	250
Collection fees	40,000	30,681
Alarm	5,000	2,544
Lift station monitoring	-	3,325
Easements	650	450
Water usage and parcel data fees	6,500	9,695
Water turn-off fees	32,000	25,425
Credit reports	4,000	2,039
Equipment lease agreements	3,000	2,680
Water testing fees	8,000	6,560
Billing fees	-	766
203 Sinking fund expenses	-	3,621
Miscellaneous	3,500	4,503
Economic Stimulus loan repayment	111,054	-
Total operating expenses	3,254,144	2,926,602
Operating income (loss)	(324,544)	2,960
NONOPERATING REVENUES		
Interest income	12,700	3,895
Increase (decrease) in net position	\$ (311,844)	6,855
Net position, beginning of year		6,370,912
NET POSITION, END OF YEAR		\$ 6,377,767