

REND LAKE CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

April 30, 2012

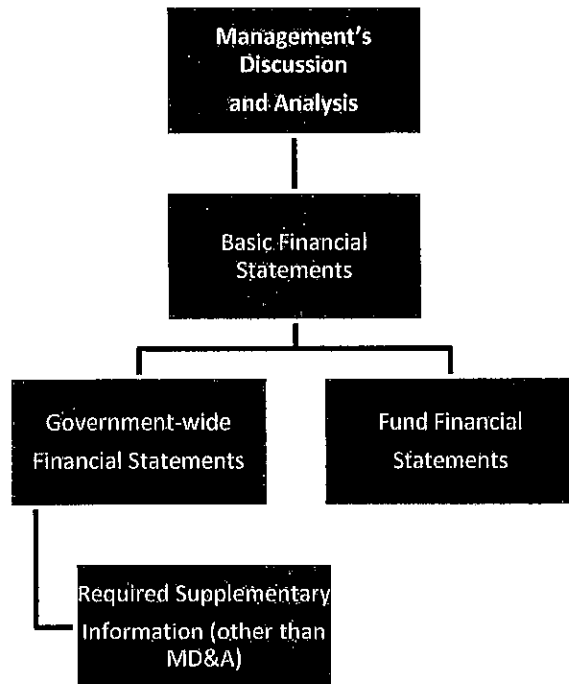
The Rend Lake Conservancy District's (District) discussion and analysis is designed to identify the significant financial issues within the District, provide a summary of the District's financial activity, discuss variances in the District's financial position, and discuss individual fund issues and/or concerns.

This narrative overview and analysis of the financial activities of the District is for the fiscal year ended April 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

The District implemented new reporting standards consistent with Governmental Accounting Standards Board Statement #34 in the fiscal year ending April 30, 2004.

USING THIS REPORT

The following chart is provided for your review:



The financial statement's focus is on both the District as a whole government-wide and on the major individual funds. Both perspectives (government-wide and major fund) allow the reader to address relevant questions and enhance the District's accountability.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances. They are comprised of the Statement of Net Assets and Statement of Activities.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. This statement combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the financial statements have separate sections for two different types of programs or activities. These two types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and charges for services. The governmental activities of the District include General Administration.

Enterprise (Business-Type) Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the District include Inter-City Water, Recreation and Sewer Treatment.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and enterprise funds.

Fund Financial Statements – Continued

The fund financial statements provide detail information about each of the District's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually. All of the District's funds are considered major funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information providing a budgetary comparison statement for the general fund.

STATEMENT OF NET ASSETS Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 1,262,168	\$ 1,320,450	\$ 7,062,202	\$ 8,489,788	\$ 8,324,370	\$ 9,810,238
Noncurrent Assets	<u>1,250,369</u>	<u>1,264,906</u>	<u>45,618,371</u>	<u>46,703,754</u>	<u>46,868,740</u>	<u>47,968,660</u>
Total Assets	<u>2,512,537</u>	<u>2,585,356</u>	<u>52,680,573</u>	<u>55,193,542</u>	<u>55,193,110</u>	<u>57,778,898</u>
Current Liabilities	524,535	593,521	1,594,922	1,468,542	2,119,457	2,062,063
Non-current Liabilities	<u>-</u>	<u>-</u>	<u>5,893,656</u>	<u>10,294,865</u>	<u>5,893,656</u>	<u>10,294,865</u>
Total Liabilities	<u>524,535</u>	<u>593,521</u>	<u>7,488,578</u>	<u>11,763,407</u>	<u>8,013,113</u>	<u>12,356,928</u>
Net Assets:						
Invested in Capital Assets						
Net of Debt	1,248,569	1,264,906	39,408,845	36,481,527	40,657,414	37,746,433
Restricted	-	-	40,763	38,970	40,763	38,970
Unrestricted	<u>739,433</u>	<u>726,929</u>	<u>5,742,387</u>	<u>6,909,638</u>	<u>6,481,820</u>	<u>7,636,567</u>
Total Net Assets	<u>\$ 1,988,002</u>	<u>\$ 1,991,835</u>	<u>\$ 45,191,995</u>	<u>\$ 43,430,135</u>	<u>\$ 47,179,997</u>	<u>\$ 45,421,970</u>

Normal Impacts

There are four basic transactions that will affect the Statement of Net Assets summary presentation.

Net Results of Activities – This can impact all classifications of the Statement of Net Assets, current assets and liabilities, long-term assets and liabilities and net assets. In this fiscal year the change in net assets was \$(3,833) for the governmental activities and \$1,761,860 for the business type activities.

Spending Borrowed Proceeds or Current Assets on New Capital Assets – Spending borrowed proceeds will increase capital assets and liabilities and will have no impact on net assets. Spending current assets (cash and investments) will increase capital assets and decrease current assets. In addition, it will increase net assets invested in capital assets, net of related debt and decrease unrestricted net assets. Capital assets were purchased this fiscal year utilizing current assets. There were no proceeds from borrowed funds in the fiscal year.

Reduction of Capital Assets through Depreciation – Depreciation will reduce capital assets and invested in capital assets, net of debt. Depreciation expense in this fiscal year was \$2,462,834.

Principal Payment on Debt Secured by Capital Assets – which will (a) reduce current assets and liabilities and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt. Principal paid on notes payable in this fiscal year was \$4,205,816.

Statement of Activities

The following condensed Statement of Activities for the fiscal year ended April 30, 2012 displays the revenues and expenses for the current fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ -	\$ -	\$ 11,204,987	\$ 10,850,704	\$ 11,204,987	\$ 10,850,704
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	-	-	303,252	854,154	303,252	854,154
General Revenues:						
Property Taxes	390,260	395,463	69,844	74,935	460,104	470,398
Other Taxes	63,013	83,891	-	-	63,013	83,891
Investment income	3,864	6,397	56,618	83,057	60,482	89,454
Miscellaneous	277	12	34,675	73,727	34,952	73,739
Total Revenues	<u>457,414</u>	<u>485,763</u>	<u>11,669,376</u>	<u>11,936,577</u>	<u>12,126,790</u>	<u>12,422,340</u>
EXPENSES						
General Government	941,247	911,636	-	-	941,247	911,636
Water	-	-	7,335,236	6,756,951	7,335,236	6,756,951
Recreation	-	-	1,687,123	1,756,653	1,687,123	1,756,653
Sewage	-	-	405,157	424,905	405,157	424,905
Total Expenses	<u>941,247</u>	<u>911,636</u>	<u>9,427,516</u>	<u>8,938,509</u>	<u>10,368,763</u>	<u>9,850,145</u>

Change in Net Assets						
Before Transfers	(483,833)	(425,873)	2,241,860	2,998,068	1,758,027	2,572,195
Transfers	<u>480,000</u>	<u>480,000</u>	<u>(480,000)</u>	<u>(480,000)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(3,833)	54,127	1,761,860	2,518,068	1,758,027	2,572,195
Net Assets, Beginning of the Year - restated	1,991,835	1,937,708	43,430,135	40,912,067	45,421,970	42,849,775
Net Assets, End of the Year	<u>\$ 1,988,002</u>	<u>\$ 1,991,835</u>	<u>\$ 45,191,995</u>	<u>\$ 43,430,135</u>	<u>\$ 47,179,997</u>	<u>\$ 45,421,970</u>

OVERALL FINANCIAL POSITION

Results of Operations

Net asset increases of \$1,758,027 in this fiscal year and \$2,572,195 in the prior fiscal year continue to improve the financial position of the District. The prior year increase included grant income of \$854,154. Without the grant income the increase last year would have been \$1,718,041. Cash, cash equivalents and investments decreased by \$1,491,667. Investment income decreased from \$89,454 last year to \$60,482. The decrease can be attributed to continued low interest rates and declining cash balances. Accelerated debt retirement was the prime factor in the decrease of cash, cash equivalents, and investments.

In the enterprise funds operating income increased by \$315,231 over the prior year. Operating expenses increased by \$548,370 resulting in a decrease in operating income of \$233,139 compared to the past year. Total non-operating income decreased by \$826,321 in large part because of the \$854,154 grant received in the prior year. Contribution income was \$303,252 this year and \$0 last year. As a result the change in net assets in the enterprise funds was \$756,208 less than it was last year.

Property Taxes

The District's property tax revenue in the fiscal year was \$460,104, less than 4% of the District's total revenue. On the most recent levy the District tax for a property with a fair market value of \$100,000 amounted to only \$25 a year. The District levied a tax rate of .1226 (per \$100) for taxes paid in 2005. The rate for taxes paid in 2012 was .0739, a reduction of 40%. The Board of Trustees success in reducing property taxes is even more impressive when compared to other taxing bodies.

THE DISTRICT'S FUNDS

Governmental Fund

The District has only one governmental fund. It is the administrative fund for the District. In the fiscal year ended April 30, 2012 receipts for the fund came from Property Taxes (\$390,260), Personal Property Replacement Tax (\$63,013), Interest and Miscellaneous Income (\$4,141) and Administration Fees (\$480,000) from the other funds. Net assets decreased during the fiscal year by \$3,833. Revenues were 104% of budgeted. Expenditures were 101% of budgeted expenses.

**Proprietary Funds
Inter-City Water**

Inter-City Water is comprised of a water plant and water distribution system. During the year, 35 wholesale customers purchased 4,929,137,237 gallons at an average price of \$1.71 per thousand gallons. Approximately 1,200 retail customers purchased 174,068,802 gallons at an average price of \$3.64 per thousand gallons. Total sales in the year were up from the prior year by 147 million gallons (2.97%) and \$450,138 (5.22%).

Wholesale sales increased 146 million gallons (3.05%). Sales would have been down without increased purchases by the City of Marion. They purchased 183 million more gallons this year than last because they were a customer just nine months in the prior year. Retail sales were up by 1.6 million gallons. Among retail customers residential sales were down by 2.3 million gallons while retail commercial sales were up 3.9 million gallons.

Sales in dollars increased 2.25% more than the increase in gallons sold because of a rate increase. The average increase in cost to customers per 1,000 gallons was 4 cents for wholesale, 7 cents for commercial retail, and 25 cents for residential retail. In addition to rate increases volume has an impact on average cost per 1,000 gallons. Average cost decreases to a customer each time they increase volume enough to reach another price point.

Net Assets increased during the fiscal year by \$1,769,091 compared to \$2,475,188 in the prior fiscal year. No grant income was received in this fiscal year. No growth in sales volume is expected next year. Sales are expected to increase by approximately 2% because of a rate increase. Weather can affect these expectations. A wet year could cause sales volume to decrease while a drought year could increase volume sales.

Total water sales in this fiscal year surpassed \$9 million and 5 billion gallons for the first time in the District's history.

The membrane building addition and the upgrade portion of the plant expansion/upgrade project was completed and placed in service August 31, 2010 at a total cost of \$19,610,942. The membrane expansion is complete but not placed in service because the District has not accepted the project. After a trial period the District determined the membrane system increased cost instead of reducing cost. Increased cost resulted from the need for additional unexpected chemicals, the labor intensity of operating the system, and a variety of other issues. The membrane system was originally adopted into the plant expansion/upgrade project because of assertions to the District that the membrane system would reduce operating cost compared to the previously selected sand filter system.

In addition to efforts to finalize the plant expansion/upgrade project the District has over 34 miles and \$15 million of new distribution lines in process. Some are in the planning stage, some are in the engineering phase, and some have already been bid or will be bid in a short time. The District will be reimbursed \$9.9 million on one project by the ultimate customer. Grants are being sought or have been obtained in the amount of \$2.55 million on the other projects.

Recreation

The Recreation Fund is comprised of three departments including the Golf Course and the Lodge/Condo complex, which provide recreation opportunities and promote tourism in the area, and Recreation Central/Leasing, which provides income and recreation opportunities through the leasing of the restaurant, shooting complex, farm land, apartment land and oil royalties.

Net assets increased by \$3,507, after an increase last year of \$91,187. In the last seven years fund balance has increased by \$312,248. Cash flow has been positive enabling the fund to reduce debt by \$1,096,403, increase operating cash by \$516,107, and make equipment purchases and facility upgrades of \$919,660.

Golf course revenue continues to decline. Seasons Condo revenues continue to increase in part as a result of target marketing to companies with workers in the area. Lease income remains constant with increases in farm rent offsetting the lack of rent from the restaurant and shooting complex. Oil royalty revenue fluctuates with the price of crude.

Positive net assets indicate the Recreation Fund can in the current environment sustain itself. Prior to the last seven years stand alone sustainability was in question. Future events, that adversely affect the golf course, lodging facilities or the restaurant, could affect sustainability, because each department is interrelated and dependant upon the other.

The Fund is an engine for tourism in Southern Illinois, providing an exceptional recreation destination for thousands of golfers, fishermen, and hunters from throughout the Midwest and beyond. Tourism is an important part of the local economy. The golf resort is an important component of that tourism.

Sewage Treatment System

Net assets decreased by \$10,738 after a loss of \$48,307 last year. Revenue is still not sufficient to cover depreciation, an indication the fund is not sustainable long-term as currently structured. Two small communities and seven commercial customers in the vicinity of Rend Lake are served by the fund. Departments of the State of Illinois represent 77% of the billing. Those departments are paying late and are currently not paying interest and maintenance charges. Maintenance charges accessed and unpaid are for damages to the sewage system by materials improperly put into the system per District ordinances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of year-end, the District had \$78,860,424 invested in a variety of capital assets and \$4,287,811 invested in projects uncompleted, as reflected in the following schedule.

	Governmental Activities	Business-type Activities	Total Activities
Property, Plant and Equipment	\$ 1,999,645	\$ 75,373,383	\$ 77,373,028
Land	925,323	562,073	1,487,396
Construction in Progress	-	4,287,811	4,287,811
Accumulated Depreciation	(1,676,399)	(34,609,758)	(36,286,157)
Total	\$ 1,248,569	\$ 45,613,509	\$ 46,862,078

In the fiscal year ending April 30, 2004 the District revised the manner in which it identifies capital assets. The policy and threshold levels were altered to enable the District to conform to more appropriate accounting standards. More detailed information regarding capital assets is in Note 5 of the financial statements.

Debt Outstanding

As of year end, the District had outstanding notes and bonds as follows:

Sewage Treatment	\$ 930,759
Whittington Bonds	321,000
ILEPA	4,952,905

Principal payments of \$4,205,816 were made during the fiscal year. Recreation Fund obtained an inter-fund loan from Inter-City water in the amount of \$3,458,000. The proceeds were used to pay off the long term debt of the fund. Monthly payments were made from Recreation to Inter-City Water at 2.6% amortized over 15 years. More detailed information regarding long-term debt is in Note 8 of the financial statements.

FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, customers and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about this report or need additional information, please contact the District's Comptroller, P.O. Box 907, Benton, Illinois 62812.