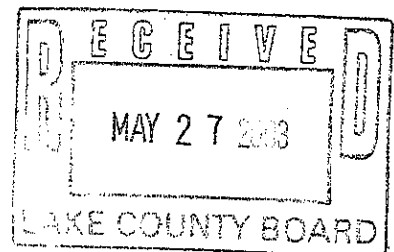


ROUND LAKE SANITARY DISTRICT

ROUND LAKE, ILLINOIS

Agenda Item # 22 AUDIT REPORT  
APRIL 30, 2002

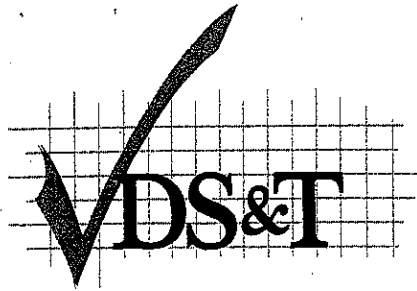
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ROUND LAKE SANITARY DISTRICT

TABLE OF CONTENTS

|  | <u>Exhibit<br/>or<br/>Schedule</u> |
|--|------------------------------------|
| Independent Auditors' Report   |                                    |
| COMBINED FINANCIAL STATEMENTS:   |                                    |
| Combined Statement of Assets and Liabilities arising<br>from Cash Transactions<br>- All Fund Types and Account Groups            | 1                                  |
| Combined Statement of Cash Receipts, Disbursements, and<br>Changes in Fund Balances - Appropriation and Actual<br>- General Fund | 2                                  |
| Notes to financial statements  |                                    |
| SUPPLEMENTAL INFORMATION   |                                    |
| Schedule of Cash Disbursements - Appropriation and Actual<br>- General Fund  | A                                  |



D A M, S N E L L & T A V E I R N E, L T D.

C E R T I F I E D + P U B L I C + A C C O U N T A N T S

LEONARD A. DAM CPA, CFP  
DAVID W. SNELL CPA, CFP  
DOUGLAS J. TAVERNE CPA, CFP  
HUGH (SKIP) MCCANN CPA, CVA  
BARBARA A. HARFOLD CPA

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Round Lake Sanitary District  
Round Lake, Illinois

We have audited the combined financial statements of the Round Lake Sanitary District as of and for the year ended April 30, 2002, as listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Round Lake Sanitary District at April 30, 2002, and its cash transactions for the year then ended, on the basis of accounting described in Note 1 to these financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information presented on Schedule A is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

As more fully described in Note 5, the District has been named as a Potentially Responsible Party in the U.S. Environmental Protection Agency's investigation into contamination at a local landfill site. Should the site need to be cleaned up, the District could be compelled to participate in defraying some or all of the cost. At this time it is not possible to predict the extent of the District's liability, if any, for these costs.

*Dam, Snell & Taveirne, Ltd.*

DAM, SNELL & TAVEIRNE, LTD.  
Certified Public Accountants  
Fox Lake, Illinois

May 23, 2002

ROUND LAKE SANITARY DISTRICT  
 COMBINED STATEMENT OF ASSETS AND LIABILITIES  
 ARISING FROM CASH TRANSACTIONS -  
 ALL FUND TYPES AND ACCOUNT GROUPS  
APRIL 30, 2002

|   | <u>Fund Type</u>       | <u>Account Groups</u>   |                           | Total<br>(Memorandum<br>Only) |
|---|------------------------|-------------------------|---------------------------|-------------------------------|
|   | General<br>(Corporate) | General<br>Fixed Assets | General Long<br>Term Debt |                               |
| <u>ASSETS</u>   |                        |                         |                           |                               |
| Cash and investments  | \$ 267,459             |                         |                           | \$ 267,459                    |
| Restricted investments  | 270,633                |                         |                           | 270,633                       |
| Property and equipment  | -                      | \$ 80,338               |                           | 80,338                        |
| Amount to be provided for the<br>retirement of long term debt | <u>-</u>               | <u>-</u>                | \$ 270,633                | <u>270,633</u>                |
| Total assets  | <u>\$ 538,092</u>      | <u>\$ 80,338</u>        | <u>\$ 270,633</u>         | <u>\$ 889,063</u>             |
| <u>LIABILITIES AND FUND BALANCES</u>                          |                        |                         |                           |                               |
| <u>LIABILITIES</u>  |                        |                         |                           |                               |
| Deposits  | \$ 6,900               |                         |                           | \$ 6,900                      |
| IMRF Demand note  | <u>-</u>               | <u>\$ -</u>             | \$ 270,633                | <u>270,633</u>                |
| Total liabilities   | <u>6,900</u>           | <u>-</u>                | <u>270,633</u>            | <u>277,533</u>                |
| <u>FUND BALANCES</u>  |                        |                         |                           |                               |
| Fund balance - designated                                     | 270,633                | -                       | -                         | 270,633                       |
| Fund balance - unreserved                                     | 260,559                | -                       | -                         | 260,559                       |
| Investment in fixed assets                                    | <u>-</u>               | 80,338                  | <u>-</u>                  | <u>80,338</u>                 |
| Total fund balances   | <u>531,192</u>         | <u>80,338</u>           | <u>-</u>                  | <u>611,530</u>                |
| Total liabilities and<br>fund balances                        | <u>\$ 538,092</u>      | <u>\$ 80,338</u>        | <u>\$ 270,633</u>         | <u>\$ 889,063</u>             |

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

ROUND LAKE SANITARY DISTRICT  
 COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN FUND BALANCES-  
 APPROPRIATION AND ACTUAL -  
 GENERAL FUND TYPE  
YEAR ENDED APRIL 30, 2002

|  | <u>Actual</u>     | <u>Appropriation</u> |
|--|-------------------|----------------------|
| <b>CASH RECEIPTS</b>   |                   |                      |
| Replacement tax  | \$ 14,787         | \$ 16,000            |
| Interest income  | 12,685            | 12,000               |
| Annexation fees  | 1,325             | 1,000                |
| Total cash receipts  | <u>28,797</u>     | <u>29,000</u>        |
| <br>   |                   |                      |
| <b>DISBURSEMENTS</b>   |                   |                      |
| Office   | 2,125             | 8,300                |
| Salaries and other compensation  | 17,185            | 24,700               |
| Maintenance of plant and sewer lines   | -                 | 8,000                |
| Insurance  | 2,980             | 5,100                |
| Plant site expenditures  | -                 | 20,000               |
| Contingencies  | 1,209             | 189,200              |
| Total disbursements  | <u>23,499</u>     | <u>255,300</u>       |
| <br>   |                   |                      |
| Excess (deficiency) of cash receipts<br>over disbursements                                     | 5,298             | (226,300)            |
| <br>   |                   |                      |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                   |                      |
| Proceeds from IMRF Demand note   | <u>270,633</u>    | <u>-</u>             |
| <br>   |                   |                      |
| Excess (deficiency) of cash<br>receipts and other sources over<br>disbursements and other uses | 275,931           | <u>\$ (226,300)</u>  |
| <br>   |                   |                      |
| FUND BALANCE - Beginning   | <u>255,261</u>    |                      |
| <br>   |                   |                      |
| FUND BALANCE - Ending  | <u>\$ 531,192</u> |                      |

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

ROUND LAKE SANITARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District is a primary government as defined by Governmental Accounting Standards Board Statement 14. GASB 14 has been applied to determine that no component units should be included in the District's reporting entity.

B. Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, receipts, and expenditures. Individual funds are based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, there is one fund and one broad fund category as follows:

GOVERNMENTAL FUND

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources of the District.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The District's financial statements have been prepared using the cash basis of accounting. Revenues are recognized when received, and expenditures are reflected as checks are written. Only assets representing a right to receive cash arising from a previous payment of cash are recorded as assets of a fund. In the same manner, only liabilities resulting from previous cash transactions are recorded as liabilities of a particular fund.

D. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Board of Trustees prepares a proposed budget for the fiscal year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance. The ordinance was passed on June 21, 2001.
4. The District is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget for all funds is prepared on the cash basis.
7. Appropriations lapse at the end of the fiscal year.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Fixed Assets and Long-term Liabilities

The accounting and reporting treatment which applies to fixed assets and long-term liabilities associated with a fund are determined by the fund's measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Fixed assets are not capitalized; rather, they are charged to expenditures when paid. When the District was operational, depreciation was computed and the fixed asset group of accounts was charged with the annual computation, using the straight-line method, over estimated useful lives ranging from 5 to 100 years.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in governing funds.

### F. Investments

Investments are stated at cost, which approximates fair market value.

### G. Memorandum Only - Total Columns

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

### H. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



**NOTE 2 - CASH AND INVESTMENTS**

Cash and investments at April 30, 2002 were comprised entirely of checking, savings accounts and certificates of deposit. Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and the state treasurer's investment pool.

At April 30, 2002, the carrying amount of the District's deposits with financial institutions was \$538,092 and the bank balance was \$537,886. The bank balance is categorized as follows:

|   |                |
|---|----------------|
| Amount insured by FDIC  | \$100,000      |
| Amount collateralized with securities held by the pledging financial institution's agent in the District's name | 437,886        |
|   | <u>537,886</u> |
|   | =====          |

**NOTE 3 - SUMMARY OF GENERAL FIXED ASSETS**

|                            | Cost             | Additions<br>(Deletions) | Accumulated<br>Depreciation | Net              |
|----------------------------|------------------|--------------------------|-----------------------------|------------------|
| Land                       | \$ 32,338        | \$ -                     | \$ -                        | \$ 32,338        |
| Land improvements          | 13,700           | -                        | 13,700                      | -                |
| Buildings and lift station | 100,000          | -                        | 52,000                      | 48,000           |
| Totals                     | <u>\$146,038</u> | <u>\$ -</u>              | <u>\$ 65,700</u>            | <u>\$ 80,338</u> |
|                            | =====            | =====                    | =====                       | =====            |

**NOTE 4 - CONTINUED OPERATIONS AS ROUND LAKE SANITARY DISTRICT**

The County of Lake has taken over the operations of the District under the County's Department of Public Works. The County leases all property, buildings and lift station of the existing sewage treatment system for one dollar a year. Because of the above agreements, the District has abated all tax levies after 1983.

Since the District ceased normal sanitary operations, the majority of plant and buildings were demolished. Only one lift station, garage and building remain on the District's property.

**NOTE 5 - COMMITMENTS AND CONTINGENCIES**

The U.S. Environmental Protection Agency (USEPA) is investigating the source, extent and nature of the release or threatened release of hazardous substances, pollutants or contaminants at the H.O.D. Landfill site, Antioch, Illinois. The USEPA is also investigating the ability of persons connected with the site to pay for or perform a clean-up of the site. The Round Lake Sanitary District has been ordered to respond to certain information requests by the USEPA.

Pursuant to an Illinois Environmental Protection Agency (IEPA) permit, the District disposed of liquid digested sludge from the District's sewage treatment plant in the H.O.D. Landfill. Because of a reclassification of "sludge" under USEPA regulations, the existence of such sludge in the H.O.D. landfill site causes the Round Lake Sanitary District to be one of twelve Potentially Responsible Parties (PRP's). The liability of PRP's can be joint and/or separable for the costs of compliance under the Superfund Act.

Should the site need to be cleaned up, all PRP's including the Round Lake Sanitary District can be compelled to participate in defraying some of these costs. Because of the relatively minor nature of the degree of contribution by the District to the site, it is management's opinion that outside financial responsibility of the District toward the clean up costs should not be disproportionate to the District's contribution to the problem. There is no way that an estimate of such costs could be obtained at this time. Given the nature of the problem and the costs associated with other clean-ups around the nation, the District's contribution to the overall costs, may have to be significant in relation to the District's customary budgeting practices.

In May 1993, the District accepted the terms of a proposed consent decree and sharing agreement which limits the liability of the District for response costs through August 19, 1990 to \$6,250. The consent decree was approved by the U. S. Justice Department and payment was made in September of 1993. Response costs and remediation costs accruing after August 19, 1990 may still be claimed against the District. At the present time, there is a claim pending for these costs.

NOTE 6 - CHANGES IN LONG TERM DEBT

|                  | Beginning of year | Issued    | Payments | End of year |
|------------------|-------------------|-----------|----------|-------------|
| IMRF Demand Note | \$ -              | \$270,633 | \$ -     | \$270,633   |
|                  | =====             | =====     | =====    | =====       |

(See footnote #7 for details of the IMRF Demand Note.)

NOTE 7 - RESTRICTED CASH/ DESIGNATED FUND BALANCE

The District is an inactive member in the Illinois Municipal Retirement Fund (IMRF). The District has accumulated assets in the IMRF employer reserve. IMRF has agreed to loan a portion of the reserve back to the District because of its inactive status. The District received \$270,633 during the fiscal year ended April 30, 2002. Should the District hire an employee eligible for IMRF participation, the District would become an active member of IMRF. Within five years of the employee's enrollment into IMRF, the District will be required to repay the \$270,633 to IMRF without interest.

ROUND LAKE SANITARY DISTRICT  
SCHEDULE OF CASH DISBURSEMENTS  
APPROPRIATION AND ACTUAL - GENERAL FUND TYPE  
APRIL 30, 2002

|  | <u>Appropriation</u> | <u>Actual</u>    |
|--|----------------------|------------------|
| Office expenditures  |                      |                  |
| Postage  | \$ 150               | \$ 25            |
| Publishing   | 800                  | 93               |
| Miscellaneous  | 50                   | 7                |
| Bookkeeping supplies   | 100                  | -                |
| Newsletter   | 5,000                | -                |
| Audit  | 2,200                | 2,000            |
| Total office expenditures  | <u>8,300</u>         | <u>2,125</u>     |
| Compensation expenditures  |                      |                  |
| Reimbursed attorney fees   | 2,500                | 2,361            |
| Trustee salaries   | 6,000                | 6,000            |
| Maintenance labor at plant   | 1,000                | -                |
| Miscellaneous engineering fees   | 5,000                | 715              |
| Bookkeeping services   | 4,500                | 2,450            |
| Attorney   | 5,200                | 5,200            |
| Social security  | 500                  | 459              |
| Total compensation   | <u>24,700</u>        | <u>17,185</u>    |
| Maintenance of plant and sewer lines   |                      |                  |
| Plant repairs  | 6,000                | -                |
| Equipment repairs  | 2,000                | -                |
| Total maintenance of plant and lines   | <u>8,000</u>         | <u>-</u>         |
| Insurance  |                      |                  |
| General liability  | 1,000                | -                |
| Surety bonds   | 1,100                | 475              |
| Public officials and employee liability  | 3,000                | 2,505            |
| Total insurance  | <u>5,100</u>         | <u>2,980</u>     |
| Plant site expenditures  |                      |                  |
| Demolition of building   | 20,000               | -                |
| Contingent expenses  |                      |                  |
| Incidental expenses  | 4,000                | 1,134            |
| Intergovernmental grant expenses   | 105,200              | -                |
| Fox Lake Treatment plant expansion review  | 10,000               | 75               |
| Participation in Illinois Assn of Sanitary<br>District study of alternative systems<br>and user rate stabilization study | 20,000               | -                |
| Contingency  | 50,000               | -                |
| Total contingent expenses  | <u>189,200</u>       | <u>1,209</u>     |
| Total cash disbursements   | <u>\$ 255,300</u>    | <u>\$ 23,499</u> |