

CITY OF PEKIN, ILLINOIS

SEWERAGE FUND

FINANCIAL STATEMENTS

APRIL 30, 2010

CITY OF PEKIN, ILLINOIS
SEWERAGE FUND FINANCIAL STATEMENTS
APRIL 30, 2010
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Pekin, Illinois

We have audited the accompanying financial statements of the Sewerage Fund of the City of Pekin, Illinois as of and for the year ended April 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the City of Pekin 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 discussed in Note 1, the financial statements present only the Sewerage Fund and do not purport to, and do not present fairly the financial position of the City of Pekin, Illinois as of April 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with 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 financial position of the Sewerage Fund of the City of Pekin, Illinois, as of April 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Willoch Warning & Co, PC

WILLOCK WARNING & CO., P.C.
November 10, 2010

CITY OF PEKIN, ILLINOIS
 SEWERAGE FUND
 STATEMENT OF NET ASSETS
APRIL 30, 2010

ASSETS:

Current assets:

Cash	\$ 2,100,895
Investments	2,240,000
Accounts receivable	<u>244,742</u>

Total current assets 4,585,637

Capital assets:

Land	73,000
Sewer plants and equipment	21,422,967
Less accumulated depreciation	<u>(9,896,474)</u>

Net capital assets 11,599,493

Total assets \$ 16,185,130

LIABILITIES

Current liabilities:

Accounts payable	\$ 15,870
Accrued wages	<u>28,288</u>

Total current liabilities 44,158

NET ASSETS

Invested in capital assets, net of related debt	11,599,493
Unrestricted	<u>4,541,479</u>

Total net assets 16,140,972

Total liabilities and net assets \$ 16,185,130

The notes to the financial statements are an integral part of this statement.

CITY OF PEKIN, ILLINOIS

SEWERAGE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED APRIL 30, 2010

OPERATING REVENUES:

Charges for services:

Wastewater service fees	\$ 2,325,089
Sewer treatment fees	55,831
Sewer connection fees	59,400
Licenses and permits	8,550
Miscellaneous	<u>3,026</u>
Total operating revenues	<u>2,451,896</u>

OPERATING EXPENSES:

Sewer operation costs	663,708
Wages and payroll taxes	504,782
Employee benefits	83,663
Professional fees	5,579
Insurance	9,602
Maintenance and repairs	362,157
Billing and collection costs	127,197
Postage, office, and administration	3,155
Depreciation	<u>620,252</u>
Total operating expenses	<u>2,380,095</u>
Operating income	71,801

NONOPERATING REVENUE (EXPENSE):

Interest income	<u>107,842</u>
Income before transfers	179,643
Transfers to City's General Fund	<u>(114,648)</u>
Change in net assets	64,995

Total net assets, beginning of year	<u>16,075,977</u>
Total net assets, end of year	<u>\$ 16,140,972</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PEKIN, ILLINOIS
SEWERAGE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2010

Cash flows from operating activities:

Receipts for services and fees	\$ 2,407,503
Payments to vendors and suppliers	(1,215,989)
Payments for employees and benefits	<u>(574,836)</u>
Net cash provided by operating activities	<u>616,678</u>

Cash flows from noncapital financing activities:

Transfer to General Fund	<u>(114,648)</u>
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Cash flows from capital activities:

Purchase of capital assets	<u>(302,718)</u>
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Cash flows from investing activities:

Redemption of investments	1,761,651
Interest income	<u>107,842</u>
Net cash provided by investing activities	<u>1,869,493</u>

Net increase in cash	2,068,805
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Cash balance, beginning of year	<u>32,090</u>
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Cash balance, end of year	<u>\$ 2,100,895</u>
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Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 71,801
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	620,252
Increase in accounts receivable	(44,118)
Decrease in accounts payable	(44,591)
Increase in accrued wages	13,609
Decrease in contractors' deposits	<u>(275)</u>
Net cash provided by operating activities	<u>\$ 616,678</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PEKIN, ILLINOIS

SEWERAGE FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

In accordance with generally accepted governmental accounting principles, the Sewerage Fund is a separate accounting fund within the City of Pekin's fund accounting system which is designed to account for and report upon specific activities or certain objectives.

The fund is an Enterprise Fund and, accordingly, employs the accrual basis of accounting wherein revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Fixed assets used in the operations of the sewerage system are stated at cost where historical records are available and at estimated historical cost where no historical records exist. Depreciation expense is recorded as a charge against income and is computed using the straight-line method based upon the estimated useful lives of the fixed assets, generally 5-40 years.

NOTE 2 - TRANSFER TO GENERAL FUND

The City allocates a portion of its administrative expenses to more accurately reflect costs of sewer operations. City officials have estimated General Fund expenses applicable to the Sewerage Fund to be \$9,554 per month.

November 11, 2010

Mayor Rusty Dunn and City Council
City of Pekin
111 South Capitol St.
Pekin, Illinois 61554

Re: Sewer User Rates

Dear Mayor and Council Members:

Section 2.01 of Sewer User Ordinance No. 1611 requires an annual review of the adequacy of the City's sewer user rates at the same time and as a part of the annual audit of the Sewerage Fund financial statements.

COMMENTS ON REVIEW OF RATES

The Sewerage Fund Statement of Net Assets at April 30, 2010 reports current assets of \$4,585,637 and current liabilities of \$44,158, resulting in net working capital of \$4,541,479. The Fund's working capital increased \$382,529 from the previous year.

The Fund earned \$64,995 for the year ended April 30, 2010. Included in operating expenses is a depreciation charge of \$620,252 and a nonoperating expense transfer of \$114,648 to the City's General Fund for reimbursement of certain estimated administrative expenses. During the year capitalized additions to fixed assets totaled \$302,718.

Total revenue from all sources decreased \$75,853 from the previous year. Basic user fees decreased \$77,907, treatment and collection fees decreased \$4,864, sewer connection fees decreased \$45,000, and license permit income decreased \$1,830. Investment income increased \$50,722.

Actual operating costs for the year (excluding depreciation) increased \$17,326. From 1993 to July 31, 2005 the City contracted the sewer operations to private companies. Since August, 2005 the City has operated and maintained its own wastewater treatment plant, lift stations, and combination sewer overflows.

Currently there is one charge to users of the City's sewerage collection and treatment system. The water-based usage charge is \$1.99 per thousand gallons of water used with a minimum \$3.00 per month charge. The usage is based on meter readings furnished by Illinois-American Water Co. The current rate was enacted October 27, 2003. Prior to the revised rate, the City charged users two different rates for the sewerage system's operations and capital improvements. Those rates had not changed in over thirteen years.

In September 2010 the City Council authorized the issuance of general obligation bonds for the purpose of financing construction costs related to the upgrading and expansion of the wastewater treatment facility in the amount of \$7,110,000. The bonds will be repaid over an eighteen year period beginning in 2011 and ending in 2030.

In August 2010 the City Council approved increases in the volumetric rate and surcharge rate to residential and commercial users of the wastewater treatment facility. The new rates are intended to continue covering operating costs of the plant, maintain sewer lines throughout the City, and accumulate sufficient funds for the debt service obligations of the new bond issue.

The new rates, which are effective May 1, 2011, are as follows:

- A minimum charge of \$3.00 for each user of the wastewater facility;
- A user rate of \$2.39 per thousand gallons of water used effective May 1, 2011;
- A user rate of \$2.87 per thousand gallons of water used effective May 1, 2012;
- A user rate of \$3.44 per thousand gallons of water used effective May 1, 2013;
- A user rate of \$4.20 per thousand gallons of water used effective May 1, 2014;
- A user rate of \$5.24 per thousand gallons of water used effective May 1, 2015;
- An increase of the surcharge rate to \$.40 per pound of BOD (biochemical oxygen demand) and \$.25 per pound of SS (suspended solids).

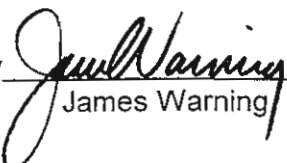
City staff will assess the effectiveness of the facility to handle storm situations over the next five years. Consideration for adjustments to the approved rates should also be reviewed annually by City staff to insure all costs are adequately covered.

Attached is a summary of selected financial data for the past ten years.

Please contact us if there are questions on these matters.

Yours truly,

WILLOCK WARNING & CO., P.C.

by  _____
James Warning CPA

JW/dl

Enclosures, as above

cc: City Manager

City Corporation Counsel

City Clerk

Assistant Finance Director

City Treasurer

CITY OF PEKIN, ILLINOIS
SEWERAGE FUND
SELECTED FINANCIAL DATA - REVENUES AND EXPENSES
FOR THE TEN YEARS 2001-2010

Year Ended April 30,	Total Operating Revenues			Investment Income	Total Operating Expenses			Sewer Operating Costs	Maintenance and Repairs	Depreciation	Billing and Collection Costs	Other Costs	Transfer to City General Fund	Net Income (Loss)
	Service Fees	Other Fees			Operating Expenses									
2010	\$2,451,896	\$2,325,089	\$126,807	\$107,842	\$2,380,095	\$663,708	\$362,157	\$620,252	\$127,197	\$606,781	\$114,648	\$64,995		
2009	2,578,471	2,402,996	175,475	57,120	2,355,703	584,407	423,706	613,186	121,930	612,474	114,648	165,240		
2008	2,722,762	2,591,804	130,958	113,883	2,191,511	608,924	338,061	584,970	123,689	535,867	143,099	502,035		
2007	2,727,070	2,596,757	130,313	113,765	2,108,386	683,154	212,408	565,073	129,493	518,258	200,000	532,449		
2006	2,464,639	2,338,119	126,520	29,445	1,890,440	572,654	172,360	578,233	124,082	443,111	100,000	503,644		
2005	2,754,059	2,632,061	121,998	5,470	2,276,659	1,102,770	272,793	575,719	132,322	193,055	100,000	382,870		
2004	2,233,265	2,094,460	138,805	22	2,234,001	1,059,101	161,213	577,144	155,563	280,980	120,000	(120,714)		
2003	1,713,051	1,519,552	193,499	283	2,138,826	1,008,171	236,590	567,353	77,072	250,449	175,000	(600,492)		
2002	1,891,403	1,515,449	375,954	32,734	1,924,447	893,071	221,257	521,443	22,850	265,826	155,000	(130,910)		
2001	1,696,013	1,583,380	112,633	117,535	1,914,977	918,446	270,749	459,827	19,824	246,131	242,070	(343,499)		

Information taken from Sewerage Fund Annual Reports, 2001-2010.

CITY OF PEKIN, ILLINOIS
SEWERAGE FUND
SELECTED FINANCIAL DATA - ASSETS AND LIABILITIES
FOR THE TEN YEARS 2001-2010

Year Ended April 30,	Cash	Investments	Receivables	Additions to Capital Assets	Total Assets	Current Liabilities	Total Net Assets
2010	\$2,100,895	\$2,240,000	\$ 244,742	\$ 302,718	\$ 16,185,130	\$ 44,158	\$ 16,140,972
2009	32,090	4,001,651	200,624	429,967	16,151,392	75,415	16,075,977
2008	179,637	3,673,487	189,293	522,300	16,142,663	231,926	15,910,737
2007	543,035	2,612,985	58,332	192,377	15,377,269	32,567	15,344,702
2006	484,834	1,812,376	58,616	19,415	14,891,439	79,186	14,812,253
2005	652,444	540,271	183,821	162,258	14,470,967	162,358	14,308,609
2004	322,173	-	210,372	77,324	14,040,437	114,698	13,925,739
2003	36,659	-	35,406	720,829	14,079,777	33,324	14,046,453
2002	21,119	758,499	152,903	1,577,033	14,786,757	140,413	14,646,344
2001	158,372	1,652,763	176,828	1,473,204	14,835,268	57,955	14,777,313

Information taken from Sewerage Fund Annual Reports, 2001-2010.