

Kankakee County, Illinois

Annual Financial Statements

**As of and for the year ended
November 30, 2012**

Kankakee County, Illinois
Annual Financial Statements
As of and for The Year Ended November 30, 2012
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Statement of Net Assets	21
Government-wide Statement of Activities.....	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Net Assets - Proprietary Funds	26
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds.....	28
Statement of Fiduciary Net Assets - Fiduciary Funds	29
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	30
Notes to Financial Statements	31
Required Supplementary Information:	
Budgetary Comparison Schedules:	
General Fund - Revenues and Other Financing Sources (Uses).....	54
General Fund - Expenditures.....	55
Tort Liability Fund.....	63
Pension Fund.....	64
County Highway Fund.....	65
Schedule of Funding Progress - Illinois Municipal Retirement Fund and OPEB	66
Notes to Required Supplementary Information	67
Other Supplementary Information:	
Tort Expenditures	69
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - General Fund.....	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund.....	71
Combining Balance Sheet - Nonmajor Governmental Funds	72
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	73
Balance Sheets - Major and Nonmajor Special Revenue Funds	74
Statements of Revenues, Expenditures, and Changes in Fund Balances - Major and Nonmajor Special Revenue Funds	78
Juvenile Detention Debt Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	82
2009 Bond Series Debt Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	83
2011 Bond Series Debt Service Fund - Statement of Revenues, Expenditures, and Changes in fund Balance – Budget and Actual.....	84
2012 Bond Series Debt Service Fund - Statement of Revenues, Expenditures, and Changes in fund Balance – Budget and Actual.....	85
Statement of Fiduciary Net Assets - Private Purpose Trust Funds.....	86
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds	87
Combining Balance Sheet - Fiduciary Funds - Agency Funds.....	88
Statement of Changes in Assets and Liabilities - Agency Funds	90
Assessed Valuations, Rates and Extensions	91

Mark L. Smith
Wayne D. Koelling
Lawrence K. Ohm
Curtis L. Dykstra
Richard S. Stenzinger
Marcie Meents Kolberg
Michael L. Stroud
Keith B. Ohm
Vicki L. DeYoung



1605 N. Convent
Bourbonnais, IL 60914
(815) 937-1997
Fax: (815) 935-0360
www.skdocpa.com

Beecher (708) 946-3232
Morris (815) 942-2554
Herscher (815) 426-9808
Peotone (708) 258-0300
Wilmington (815) 476-4477

Independent Auditor's Report

Kankakee County Board
Kankakee County, Illinois
Kankakee, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kankakee County, State of Illinois, as of and for the year ended November 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kankakee County, State of Illinois' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kankakee County Public Building Commission, which represents 100 percent of the assets, net assets and revenues of the component unit column. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Kankakee County Public Building Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Kankakee County, State of Illinois, as of November 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, on our consideration of the Kankakee County, State of Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress – Illinois Municipal Retirement Fund, as found in table of contents, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kankakee County, State of Illinois' financial statements as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary 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. The 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith, Koelling, Dykstra and Ohm, P.C.

Bourbonnais, Illinois
June 26, 2013

Mark L. Smith
Wayne D. Koelling
Lawrence K. Ohm
Curtis L. Dykstra
Richard S. Stenzinger
Marcie Meents Kolberg
Michael L. Stroud
Keith B. Ohm
Vicki L. DeYoung



Smith, Koelling,
Dykstra & Ohm, P.C.
Certified Public Accountants and Advisors

1605 N. Convent
Bourbonnais, IL 60914
(815) 937-1997
Fax: (815) 935-0360
www.skdocpa.com

Beccher (708) 946-3232
Morris (815) 942-2554
Herscher (815) 426-9808
Peotone (708) 258-0300
Wilmington (815) 476-4477

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Kankakee County Board
Kankakee, County, Illinois
Kankakee, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kankakee County, State of Illinois, as of and for the year ended November 30, 2012, which collectively comprise the Kankakee County, State of Illinois' basic financial statements and have issued our report thereon dated June 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Kankakee County, Illinois is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Kankakee County, Illinois', internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kankakee County, Illinois' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kankakee County, Illinois' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material weaknesses.

Finding 2012-01: Certain salaried employees were inadvertently paid more than contractually stated or board authorized amounts during fiscal year 2012 due to the anomaly of there being 27 pay periods during the year, rather than the normal 26 pay periods. The anomaly occurs every 12 or 13 years on a bi-weekly pay schedule, depending on the calendar and actual pay dates.

Management's Response: To ensure that this does not reoccur, all statements of payroll in the future will include an amount in a bi-weekly format to conform to the County's bi-weekly pay schedule. This will continue as is the current practice in all non-union statements of payroll. Any salaries that are board authorized will also include a bi-weekly format at the next opportunity for approval, in or prior to May 2014. Additionally, the bi-weekly format will be included in all union contracts as they are presented for negotiation. As this anomaly of 27 pay periods will not occur again until 2024, this method will be common practice prior to that time.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kankakee County, Illinois' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as Finding 2012-01 above.

Kankakee County, Illinois' response to the finding identified in our audit is described above. We did not audit Kankakee County, Illinois' response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the County Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Koelling, Dykstra and Odum, P.C.

Bourbonnais, Illinois
June 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the County of Kankakee presents readers of the County's financial statement this narrative overview and analysis of the financial activities for the fiscal year ended November 30, 2012 and 2011.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. This analysis will include comparative information to last year's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County of Kankakee exceeded its liabilities at the close of the most recent fiscal year by \$63 million (*net assets*). Net assets invested in capital assets (net of depreciation and related debt) account for over 68 percent of this amount (\$43.2 million). Of the total, \$4.8 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of fiscal year 2012, the County of Kankakee's governmental funds reported combined ending fund balances of \$18.0 million.
- Overall revenues for governmental funds were \$54.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – **management's discussion and analysis** (this section), the **basic financial statements**, and **required supplementary information**. This discussion and analysis is intended to serve as an introduction to the County of Kankakee's basic financial statements. The basic financial statements comprise two types of statements that present different views of the County:

- The first two statements are **government-wide financial statements** that provide both **long-term** and **short-term** information about the County's overall financial status.
- The remaining statements are **fund financial statements** that focus on **individual parts** of the County government, reporting the County's operations in **more detail** than the government-wide statements.
- The **governmental funds** statements tell how **general government** services such as public safety were financed in the **short-term** as well as what remains for future spending.
- **Proprietary fund** statements offer **short- and long-term** financial information about the activities that the government operates **like a business**, such as the Emergency Telephone System (911).
- **Fiduciary fund** statements provide information about the financial relationships, like the drainage district funds, in which the County acts solely as a **trustee or agent** for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Illustration A shows how the requisite parts of this annual report are arranged and related to one another.

Illustration A
Organization of the County of Kankakee's Annual Financial Report

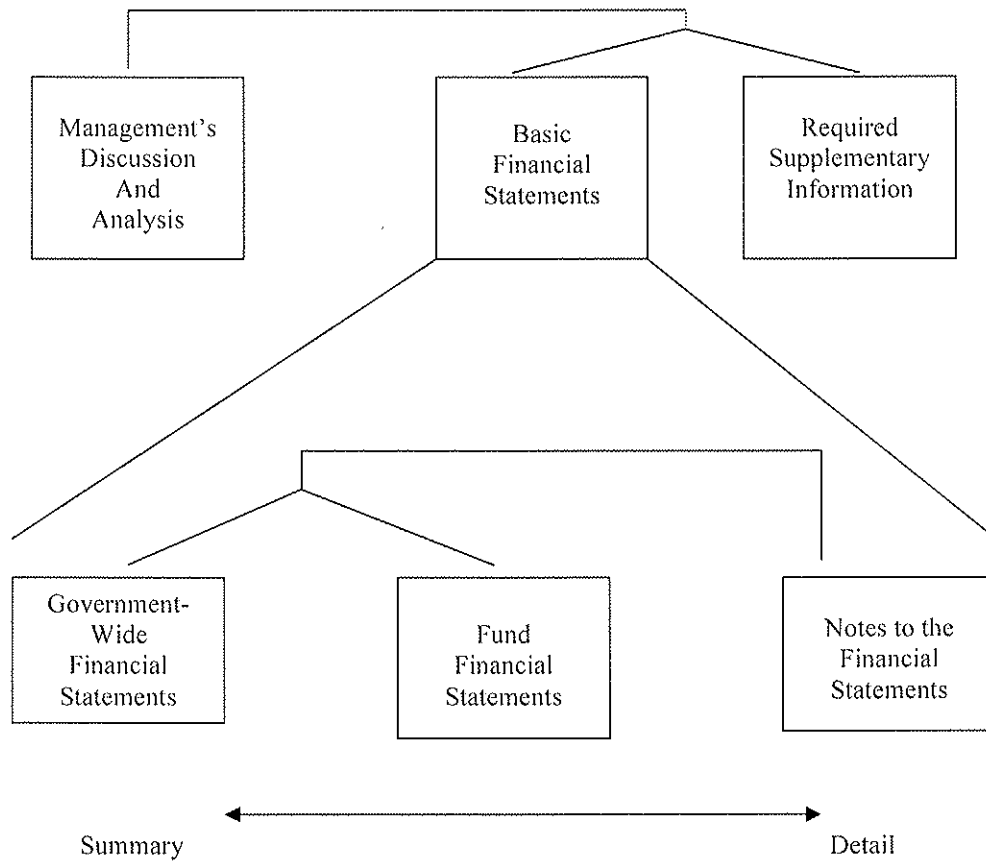


Illustration B summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Illustration B
Major Features of Kankakee County’s Government-wide and Fund Financial Statements

	Fund Financial Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County (except fiduciary funds) and the County’s component units	The activities of the County that are not proprietary or fiduciary, such as administrative and public safety	Activities the County operates similar to private businesses: the Emergency Telephone (911) system, and Animal Control	Instances in which the County is the trustee or agent for someone else’s resources, such as the drainage district funds
Required financial statements	<ul style="list-style-type: none"> ▪ Statement of net assets ▪ Statement of activities 	<ul style="list-style-type: none"> ▪ Balance sheet ▪ Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> ▪ Statement of net assets ▪ Statement of revenues, expenses, and changes in net assets ▪ Statement of cash flows 	<ul style="list-style-type: none"> ▪ Statement of fiduciary net assets ▪ Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County’s assets and liabilities. The difference between the two is net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The statement of activities presents information showing how the government’s net assets changed during the most recent fiscal year. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County’s net assets and how they have changed. Net assets, the difference between the County’s assets and liabilities, are one way to measure the County’s financial health. Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements of the County are divided into three categories:

1. **Governmental activities** – Most of the County’s basic services are included here, such as the Sheriff’s Department, State’s Attorney Office, Highway Department, Health Department, and General Administration. Property taxes and state and federal grants finance most of these activities.

2. **Business-type activities** – The County charges fees to customers to help cover the costs of certain services it provides. The County’s Emergency Telephone (911) System and Animal Control are included here.
3. **Component units** – The County includes another entity, the Kankakee County Public Building Commission, in its report. Although legally separate, this component unit is important because the County is financially accountable for it. The Public Building Commission is a discretely-presented component unit of the County of Kankakee. The Commission issues separate financial statements which are on file at the Office of the Finance Director, Kankakee County, 189 E. Court St., Suite 300, Kankakee, Illinois 60901.

Additionally, the Kankakee County Health Department, the Veterans Assistance Commission, and the Kankakee County Emergency Telephone System Board are blended component units of the County of Kankakee. These entities’ financial statements are blended with those of the County due to a degree of control that the County has over these functions. However, both the Health Department and the Emergency Telephone System Board have issued separate financial statements which are also on file at the County.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund Financial Statements

Kankakee County’s fund financial statements provide more detailed information about the County’s most significant funds, as opposed to the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law or by bond covenants. The County Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The County has three categories of funds:

1. **Governmental funds:** Most of the County’s basic services are included in governmental funds, which focus on both how cash and other financial assets that can readily be converted to cash flow in and out, and the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statement explains the relationship, or differences, between them.

Kankakee County maintains thirty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Pension Fund, and County Highway Fund. These three funds are considered to be major funds. In prior years, the Tort Fund was also listed separately as a major fund. However, GASB 10 states that for financial reporting purposes, the activity in the Tort Fund should be presented as if it were part of the General Fund. Data from the other thirty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Kankakee County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. This schedule is found in the Required Supplementary Information section.

The basic governmental fund financial statements can be found on pages 23-25 of this report.

2. **Proprietary funds:** Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the County’s enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. Kankakee County uses enterprise funds to account for its Emergency Telephone Services (911) system and for its animal control operation.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

3. **Fiduciary funds:** The County is a trustee, or fiduciary for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. Kankakee County excludes these activities from the county's government-wide financial statements because the County cannot use these assets to finance its operations.

The basic fiduciary fund financial statements can be found on page 29-30 of this report.

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.

The notes to the financial statements can be found on pages 31-52 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for major governmental funds.

Required supplementary information and related notes can be found on pages 54-67 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 70-90 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the tenth year that the County has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The reporting model significantly changed the recording and presentation of financial data from the previous model and comparative data is provided.

Exhibit 1 is a condensed version of the statement of net assets for the County of Kankakee. At the close of the current fiscal year the County's net assets exceeded liabilities by just over \$63 million. Net assets for governmental activities decreased approximately \$1.9 million from FY 2011. This follows decreases of \$1.3 million from FY 2010, \$1.0 million from FY 2009 and \$5.33 million in the prior year from an all-time high of over \$72 million in FY 2008. However, for business-type activities, net assets increased by nearly \$0.1 million.

Exhibit 1
Condensed Statement of Net Assets (In Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 40,219	\$ 43,737	\$ 4,587	\$ 4,739	\$ 44,806	\$ 48,476
Capital assets	64,449	65,752	2,420	2,329	66,869	68,081
Total assets	<u>104,668</u>	<u>109,489</u>	<u>7,007</u>	<u>7,068</u>	<u>111,675</u>	<u>116,557</u>
Current and other liabilities	24,787	26,311	575	498	25,362	26,809
Long-term debt	22,294	23,681	981	1,205	23,275	24,886
Total liabilities	<u>47,081</u>	<u>49,992</u>	<u>1,556</u>	<u>1,703</u>	<u>48,637</u>	<u>51,695</u>
Net assets invested in capital assets, net of related debt	41,963	44,709	1,238	910	43,201	45,619
Restricted	14,804	15,873	253	254	15,057	16,127
Unrestricted	820	(1,085)	3,960	4,201	4,780	3,116
Total net assets	<u>\$ 57,587</u>	<u>\$ 59,497</u>	<u>\$ 5,451</u>	<u>\$ 5,365</u>	<u>\$ 63,038</u>	<u>\$ 64,862</u>

A significant portion of the County's net assets (68.5 percent) reflects investment of \$43.2 million in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$15.1 million (24 percent), represents resources that are subject to external restrictions on how they may be used. Of this amount, \$0.6 million of governmental activities and all of the business-type activities restricted net assets are restricted for debt service. Additionally, \$0.5 million is restricted for capital projects related to the Integrated Justice Information Systems (IJIS) Project. The remainder is restricted for other purposes.

The remaining portion of the County's net assets (7.5 percent) is located in unrestricted net assets. Kankakee County's unrestricted net assets of \$4.8 million may be used to meet the County's ongoing obligations to citizens and creditors. This is an increase of \$1.7 million overall in the County's unrestricted net assets from the prior year.

At the end of the current fiscal year, the County of Kankakee is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This is the first year since 2008 that the County has had a positive balance in unrestricted net assets for governmental activities.

The following table, Exhibit 2, illustrates changes in net assets resulting from changes in revenues and expenditures.

Exhibit 2

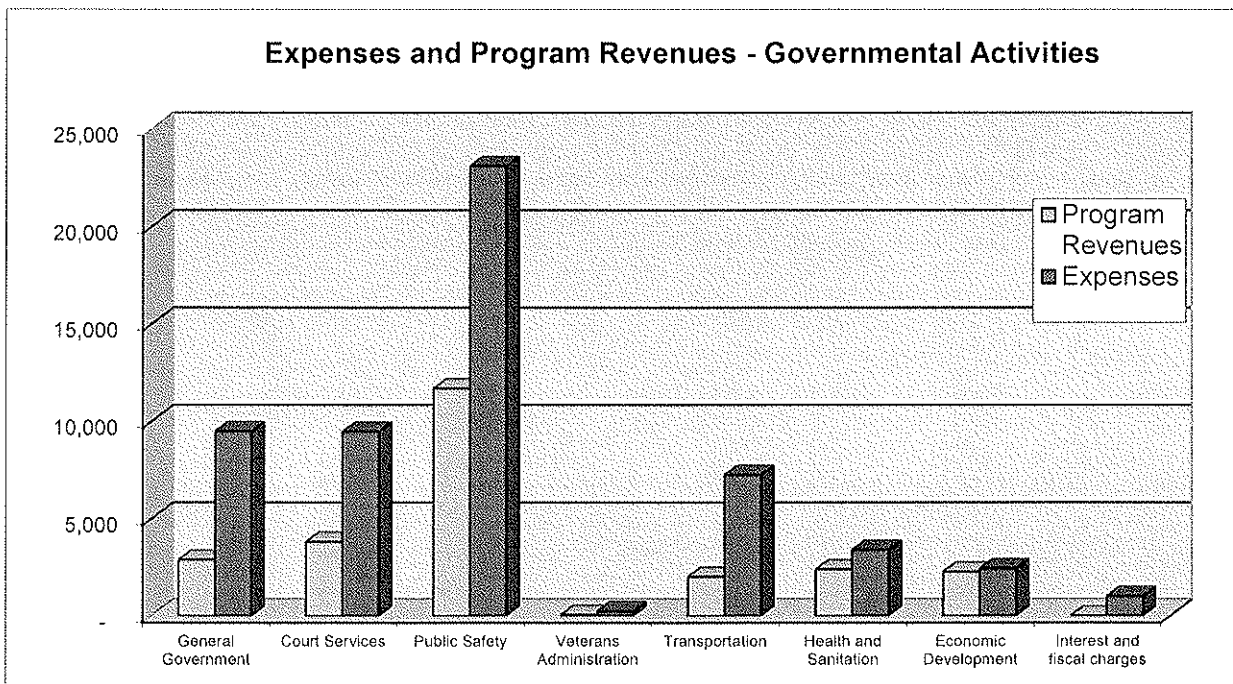
Kankakee County's Changes in Net Assets (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$ 17,055	\$ 16,816	\$ 3,102	\$ 3,065	\$ 20,157	\$ 19,881
Operating Grants and Contributions	7,499	9,518	-	-	7,499	9,518
Capital Grants and Contributions	563	22	-	-	563	22
General Revenues						
Property Taxes	16,528	16,204	-	-	16,528	16,204
Sales Tax	7,485	7,888	-	-	7,485	7,888
State Income Tax	2,522	2,234	-	-	2,522	2,234
Replacement and Other Taxes	2,495	2,606	-	-	2,495	2,606
Other	241	297	8	32	249	329
Total Revenues	54,388	55,585	3,110	3,097	57,498	58,682
Expenses						
Governmental Activities						
General Government	9,483	8,777	-	-	9,483	8,777
Public Safety	23,087	21,753	-	-	23,087	21,753
Court Services	9,463	9,479	-	-	9,463	9,479
Transportation	7,250	8,877	-	-	7,250	8,877
Health and Sanitation	3,396	3,266	-	-	3,396	3,266
Veterans Administration	230	237	-	-	230	237
Economic Development	2,431	3,407	-	-	2,431	3,407
Interest and fiscal charges	1,015	1,163	-	-	1,015	1,163
Business-Type Activities						
Emergency Telephone Services	-	-	2,747	2,608	2,747	2,608
Animal Control	-	-	277	298	277	298
Total Expenses	56,355	56,959	3,024	2,906	59,379	59,865
Excess (Deficiency) Before Special Items	(1,967)	(1,374)	86	191	(1,881)	(1,183)
Special & Extraordinary Items	57	62	-	-	57	62
Increase (Decrease) in Net Assets	(1,910)	(1,312)	86	191	(1,824)	(1,121)
Net Assets - Beginning of Year	59,497	60,809	5,365	5,174	64,862	65,983
Net Assets - End of Year	<u>\$ 57,587</u>	<u>\$ 59,497</u>	<u>\$ 5,451</u>	<u>\$ 5,365</u>	<u>\$ 63,038</u>	<u>\$ 64,862</u>

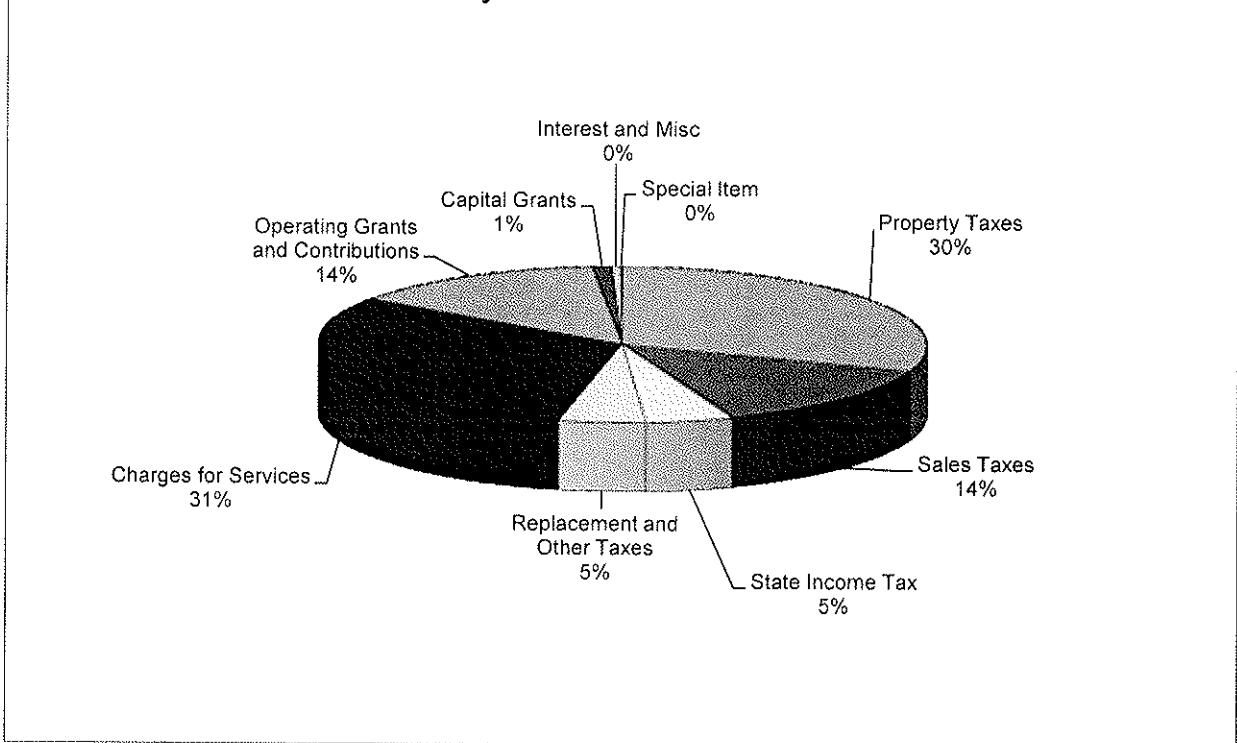
- Charges for services for governmental activities increased overall by nearly \$0.24 million (1.4 percent). There was a larger increase in Public Safety of \$0.7 million as a result of filled capacity in the inmate rental program. This was partially offset by decreases of \$0.2 million in charges for services in the court services, as well as \$0.2 million in transportation. This was the second consecutive year of increases in general government charges for service following four years of declines in this category.
- Operating grants for governmental activities decreased by \$2.0 million (21.2 percent) during the year. The most significant change was a decrease in Economic Development of \$1.0 million as a result of the completion of American Recovery and Reinvestment Act (ARRA) awards for the Workforce Investment Act (WIA) program which ended on June 30, 2011. There was another significant change in transportation, where there was a decrease of \$0.77 million in operating grants. Additionally, the majority of the decrease in operating grants for court services was due to the ending of the child support grant program which ended on April 30, 2012.

- Capital grants for governmental activities increased by \$0.54 million during the year. This is the result of transportation capital grants for the highway department.
- Sales tax revenue had a decrease of \$0.4 million (5.1 percent) from last fiscal year. This follows a \$0.03 million increase experienced in the prior year, and a \$0.4 million increase two years ago. The County has experienced great volatility in its sales tax revenue over the past several years. Three years ago, the County experienced a drastic decrease of \$1.8 million. Previously, sales tax experienced trends of large increases from FY2003 to FY2005, and mostly stagnant growth from FY2005 to FY2008, as evidenced in the following detail. Sales tax experienced a small increase of \$0.3 million from FY2007 to FY2008 preceded by a \$0.25 million decrease in the year prior. This recent stagnation is affected by the downturn in the economy as well as the slowed growth in the largely successful tax rebate program implemented in the City of Kankakee to draw more businesses to the area. While the increase from FY2005 to FY2006 was only \$0.52 million, sales tax had increased by \$1.2 million from FY2004 to FY2005 and by \$1.3 million from FY2003 to FY2004, giving the County a 39.5 percent increase over the two year period. From FY2005 to FY2008, there was a net 6.7 percent increase.
- Total expenditures on the Government-wide Statement of Activities were relatively stagnant from the prior year, with only a decrease of \$0.6 million, although there were varying rates of fluctuation amongst the governmental activities. The areas of significant increase were in general government (\$0.7 million), and public safety (\$1.3 million). Areas that experienced decreases from the prior year included transportation (\$1.6 million) and economic development (\$1.0 million).

Governmental Activities



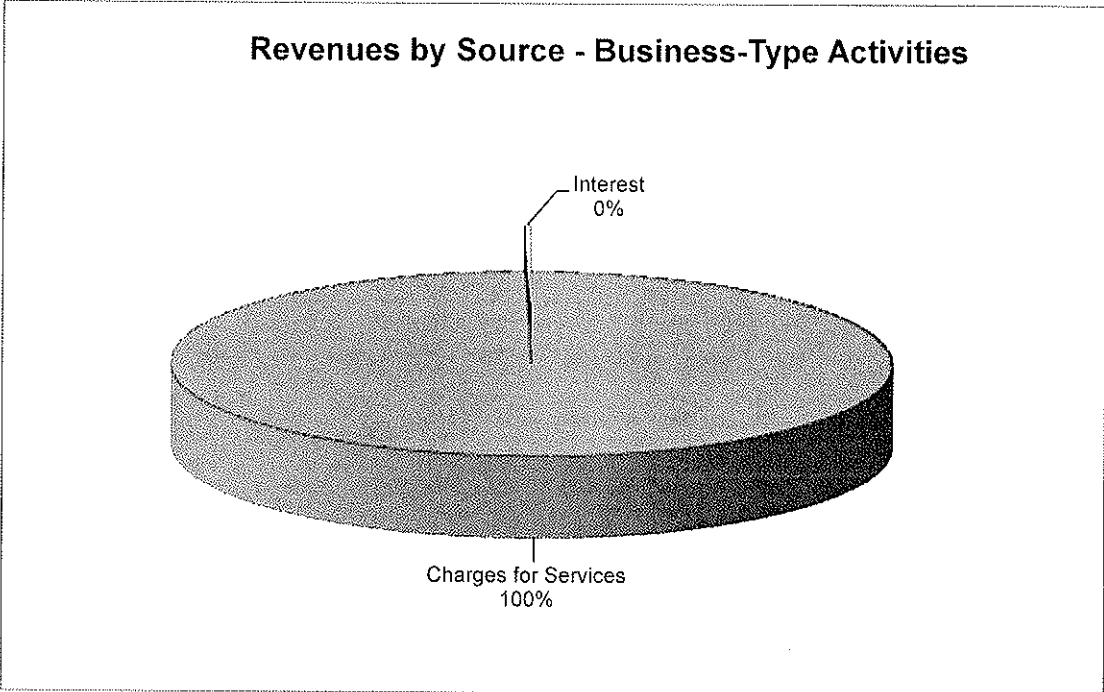
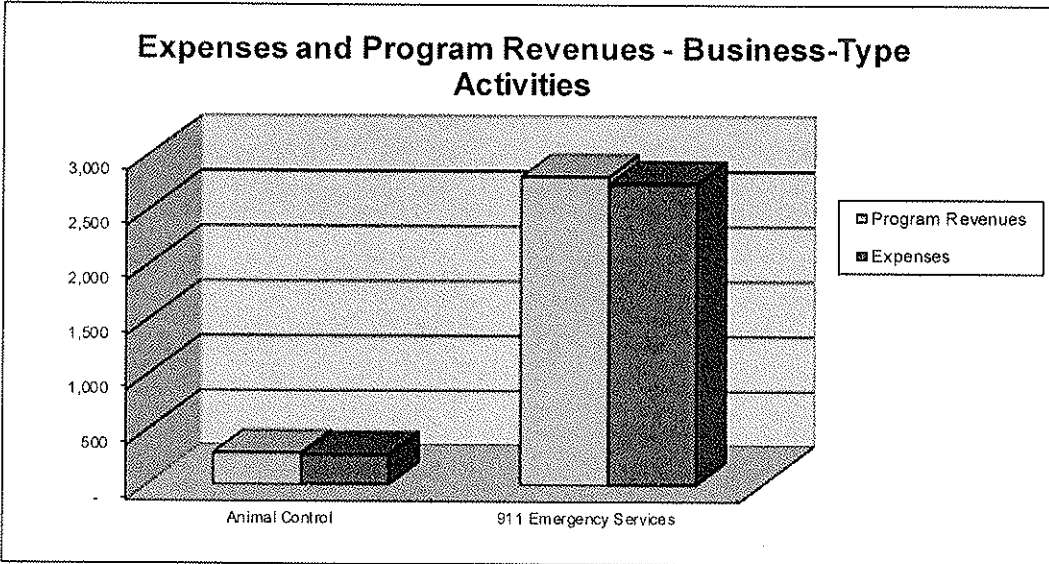
Revenues by Source - Governmental Activities



Governmental activities decreased the County's net assets by \$1.9 million. In the prior fiscal year, net assets decreased by \$1.3 million. Although there was a decrease in expenses from the prior year of \$0.6 million; a decrease in revenues from the prior year of \$1.2 million contributed to another deficit. State income tax finally experienced an increase for the second consecutive year (\$0.3 million) after continuous decline in previous years, while property taxes continued its trend back up as well. However, sales tax and replacement tax decreased by \$0.4 and \$0.1 million, respectively.

The preceding charts illustrate the County's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the County, followed by general government, court services, and transportation. Public safety comprises 41.0 percent of total governmental activities, up from 29 percent eight years ago. General government increased to 16.8 percent of total governmental activities, while economic development decreased to 4.3 percent due to the completion of expenses attributable to the ARRA awards discussed above. General revenues such as the property, sales, state income, replacement, motor fuel, and other taxes are not shown by function because they are used to support County-wide program activities. Over one-quarter, 30 cents of every dollar, of the County's revenue for governmental funds comes from property taxes (up from 29 cents a year ago), and 54 cents of every dollar raised comes from some type of tax. This is an increase from 52 cents in the prior year. The percent of revenue from tax has changed from 52 cents three years ago, 53 cents four years ago, 55 cents five years ago, 56 cents six years ago (when you remove the one time special item), 60 cents seven years ago and 63 cents eight years ago. More specifically, the percentage of property taxes funding governmental activities has decreased from 32 percent in FY2003 to 30 percent in FY2012.

Business-Type Activities



Business-type activities increased the County's net assets by \$0.1 million to \$5.45 million, an increase of 1.6 percent.