

Lakes Region Sanitary District Ingleside, Illinois

Annual Financial Report
For the Fiscal Year Ended April 30, 2017

Prepared by:
Lakes Region Sanitary District
Ingleside, IL

Lakes Region Sanitary District

Fiscal Year Ended April 30, 2017

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Independent Auditor's Report

To the Honorable President and
Members of the Board of Trustees
Lakes Region Sanitary District
Ingleside, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lakes Region Sanitary District, Illinois, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lakes Region Sanitary District, Illinois, as of April 30, 2017, and the respective changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-10, budgetary comparison information on page 33, and pension related information on page 34 be presented to supplement the basic financial statements. Such information, although not 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 the 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Chicago, Illinois
August 10, 2017

Required Supplementary Information

Management Discussion and Analysis

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2017

The discussion and analysis of Lakes Region Sanitary District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended April 30, 2017. The management of the District encourages readers to consider the information presented herein in conjunction with the financial statements to enhance their understanding of the District's financial performance.

Governmental Accounting Standards Board Pronouncements

Refer to the Notes to the Basic Financial Statements; Note 1, Summary of Significant Accounting Policies; paragraph (e) *New Accounting Pronouncements* for further discussion.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$23,387,128. Of this amount, \$3,870,481 may be used to meet the District's ongoing obligations to citizens and creditors, with the remainder representing the amount of net investment in capital assets.
- In total, net position decreased by \$434,899. This represents a decrease of 1.8% in net position from fiscal year 2016. This is primarily the result of expenses related to repair projects completed during the fiscal year, as well as increased debt service related to the latest IEPA loan and significantly lower sewer connection fees.
- Property tax revenue was \$1,201,748 or 45.6% of all revenues. This represents an increase of 2.0% from fiscal year 2016; due to a slowly recovering tax base and steady tax rate.
- Connection and user fees were \$1,318,796 or 50.0% of all revenues. This represents a decrease of 14.9% from fiscal year 2016, due to fewer permit issuances, offset by a small increase in user fees due to new connections from past years.
- At the end of the fiscal year, the District's governmental funds reported combined ending fund balances of \$3,825,407. This represents an increase of 0.9% from fiscal year 2016.
- At the end of the fiscal year, the fund balance for the general fund was all unassigned in the amount of \$2,400,026, or 91.2% of total general fund expenditures for the fiscal year. The District strives to maintain fund balances at levels which are sufficient to absorb revenue shortfalls or financial emergencies. The District has not relied on its fund balance to offset reductions in tax and connection fee revenues. Instead, choosing to bring expenditures in line with revenue, leaving fund balances strong for the future.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

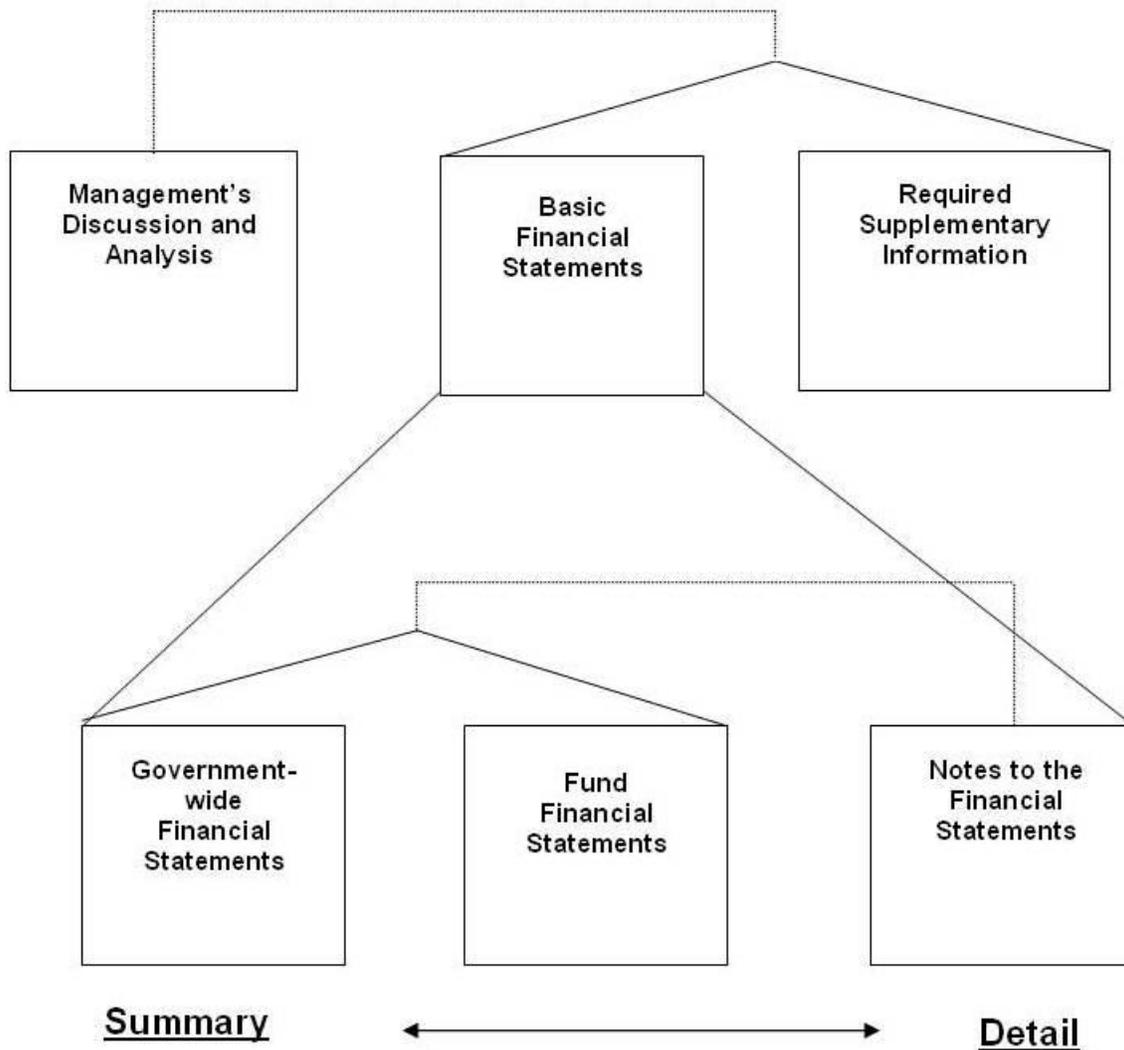
Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Organization of Lakes Region Sanitary District's Annual Financial Report

Lakes Region Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2017



This report also contains other supplementary information in addition to the basic financial statements.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2017

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets, deferred inflows, liabilities and deferred outflows with the net difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year being reported. All changes in net position are reported when the criteria for each reporting category is satisfied.

The government-wide financial statements present the District functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The District has no business-type activities; that is, functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District's governmental activities provide sanitary sewer services.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District funds are considered governmental funds (the District maintains no proprietary funds or fiduciary funds).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For fiscal year 2017, the District maintained three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the General Fund and Repair and Replacement Fund, with data from the other governmental fund presented as Nonmajor Governmental Fund.

The District adopts an annual budget for each of the funds listed above. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budget.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2017

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Net Position (Table 1).

At the end of the fiscal year, total net position was \$23,387,128. This represents a decrease of \$434,899 from fiscal year 2016.

Table 1 Condensed Statement of Net Position At April 30, (in dollars)	2017	2016
Current Assets	\$ 6,176,308	\$ 6,135,728
Noncurrent Assets		
Capital Assets	30,222,729	31,556,355
Total Assets	<u>\$36,399,037</u>	<u>\$ 37,692,083</u>
Deferred Outflows of Resources	<u>\$ 88,439</u>	<u>\$ 100,902</u>
Current Liabilities	\$ 2,832,216	\$ 2,903,278
Long Term Liabilities, Net of Current Maturities	10,198,248	11,002,386
Total Liabilities	<u>\$13,030,464</u>	<u>\$ 13,905,664</u>
Deferred Inflows of Resources	<u>\$ 69,884</u>	<u>\$ 65,294</u>
Net Position:		
Net Investment in Capital Assets	\$ 19,516,647	\$ 20,010,281
Unrestricted	3,870,481	3,811,746
Total Net Position	<u>\$23,387,128</u>	<u>\$ 23,822,027</u>

Lakes Region Sanitary District

**Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2017**

Changes in Net Position (Table 2).

The District's total revenues were \$2,635,488, which includes:

- \$1,201,748 from property taxes, 45.6% of the total. This represents an increase of 2.0% from fiscal year 2016.
- \$1,318,796 from fees charged for services, 50.0% of the total. This represents a decrease of 14.9% from fiscal year 2016.
- \$114,944 from miscellaneous sources such as personal property replacement tax, interest, penalty fees and debt issuance premium. This represents a decrease of 1.0% from fiscal year 2016.

The total cost of all programs and services was \$3,070,387. This represents a decrease of 20.3% from fiscal year 2016. The District's expenses are predominantly related to providing sanitary sewer services to the residents of the District (salary and benefits, administration, building maintenance and materials purchase costs, etc. - including sewer construction and repair projects).

Total expenses exceeded revenues, decreasing net position by \$434,899.

Table 2		
Condensed Statement of Activities		
For the Fiscal Year Ended April 30,		
(in dollars)		
	2017	2016
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,318,796	\$ 1,549,489
Contributed Capital Assets & Grants	-	-
General Revenues:		
Taxes	1,250,005	1,221,952
Other	66,687	72,619
Total Revenues	<u>2,635,488</u>	<u>2,844,060</u>
Expenses:		
General Government	3,070,387	3,850,509
Decrease in Net Position	<u>(434,899)</u>	<u>(1,006,449)</u>
Net Position - Beginning (as restated for 2016)	23,822,027	24,828,476
Net Position - Ending	<u>\$ 23,387,128</u>	<u>\$ 23,822,027</u>

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2017

Financial Analysis of the District's Funds

As the District completed the fiscal year, its governmental funds reported combined fund balances of \$3,825,407, an increase of 0.9% from fiscal year 2016. Revenues and other financing sources for the District's governmental activities were \$2,702,092, a decrease of 21.6%, primarily due to a decrease in connection fee revenue and the effect of the proceeds of an IEPA loan to fund repair projects recorded in fiscal year 2016. Total expenditures were \$2,666,221, a decrease of 22.8%, primarily due to expenditures related to repair projects completed during fiscal year 2016.

For the fiscal year, the General Fund experienced an operating deficiency, after other financing uses, of \$22,811. Factors that attributed to the deficiency are primarily the significantly lower connection fee revenue.

General Fund Budgetary Highlights

While the District's budget for the General Fund anticipated that expenditures would be an operating deficit of \$218,600 against revenues before other financing uses, the actual result for the fiscal year was an operating deficit of \$13,366.

Expenditures were lower than anticipated due to:

- Several projects in the Operations and Maintenance department requiring fewer resources.
- Other projects cancelled or delayed.
- Control of all categories of expenditures where possible.
- An amount budgeted for contingencies that did not require utilization.

Revenues were higher than anticipated due to:

- Higher than budgeted:
 - Penalty Fees, which the District does not budget as a matter of policy.
 - User Fees due to faster recovery than expected of new home sales in the Volo South area, coupled with the effect of the minor rate increase due to CPI.
 - Property Taxes due to the increase in equalized assessed valuation from the recovery in the housing market, tempered by a flat tax rate.
- Offset by lower than budgeted:
 - Permit activity unfavorably affecting Connection and related Fees.

Lakes Region Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2017

Capital Asset and Debt Administration

Capital Assets (Table 3)

At the end of fiscal year 2017, the District had invested \$46,675,637 (before accumulated depreciation of \$16,452,908) in a broad range of capital assets, including sewers, lift stations, buildings and improvements, equipment, furniture and land. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Depreciation expense for the fiscal year was \$1,352,773.

Net additions to capital assets amounted to \$19,148. This includes: amounts recorded as additions to construction in process related to ongoing lift station upgrades, including accruals for invoices not received as of the end of the fiscal year; amounts recorded related to completed projects transferred from construction in process to the respective asset category; and contributed capital assets.

Table 3 Condensed Schedule of Capital Assets At April 30, (in dollars)	2017	2016
Construction in Process	\$ 17,177	\$ 17,177
Sewers and Lift Stations	44,390,088	44,379,205
Land, Buildings and Improvements	2,080,903	2,080,903
Office Equipment	24,390	24,390
Maintenance Equipment and Vehicles	163,079	154,814
Investment in Capital Assets, Cost	<u>46,675,637</u>	<u>46,656,489</u>
Less: Accumulated Depreciation	16,452,908	15,100,134
Investment in Capital Assets, Net	<u>\$ 30,222,729</u>	<u>\$ 31,556,355</u>

Long Term Debt

The long term debt carried by the District is related to the construction of capital projects. The IEPA loans are related to the construction of expansions to the District's system of sewers, as well as substantial repair projects. The general obligation debt certificates are related to the construction of the District's headquarters facility and the South Trunk Sewer.

See Note 6 for details regarding the terms and repayment of the obligations.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2017

Factors Bearing on the District's Future

At April 30, 2017, the District was aware of the following existing circumstances that could significantly affect its financial health in the future.

- Sewer repairs are continually discovered as a result of the District's ongoing routine inspection of the sewer system. Various lift station repairs are anticipated to be completed in FY 2018.
- An additional IEPA loan is anticipated to finance the above mentioned lift station repairs.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Lakes Region Sanitary District
25700 West Old Grand Avenue
Ingleside, IL 60041-8524
847-973-8940

Basic Financial Statements

Government – Wide Financial Statements

Lakes Region Sanitary District

Statement of Net Position
At April 30, 2017

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 4,410,813
Receivables:	
Property Taxes	1,207,078
Billed Sewer Charges	96,538
Unbilled Sewer Charges	272,219
Interest and Other	189,660
Total Current Assets	<u>6,176,308</u>
Noncurrent Assets	
Capital Assets Not Being Depreciated	180,052
Capital Assets Being Depreciated, Net	30,042,677
Total Noncurrent Assets	<u>30,222,729</u>
Total Assets	<u>36,399,037</u>
Deferred Outflows of Resources	
Pension Actuarial Adjustments	23,395
Deferred Pension Contributions	65,044
Total Deferred Outflows of Resources	<u>88,439</u>
Liabilities	
Current Liabilities	
Accounts Payable	109,712
Accrued Interest Payable	145,433
Compensated Absences	41,284
Due To Other Governments	454,903
Unearned Revenue	892,315
Developer Escrow	313,951
General Obligation Debt	505,000
IEPA Loans	369,618
Total Current Liabilities	<u>2,832,216</u>
Long Term Liabilities, Net of Current Maturities	
General Obligation Debt	6,320,000
IEPA Loans	3,441,581
Net Pension Liability	436,667
Total Long Term Liabilities, Net of Current Maturities	<u>10,198,248</u>
Total Liabilities	<u>13,030,464</u>
Deferred Inflows of Resources	
Unamortized Debt Issuance Premium	58,421
Pension Actuarial Adjustments	11,463
Total Deferred Inflows of Resources	<u>69,884</u>
Net Position	
Net Investment in Capital Assets	19,516,647
Unrestricted	3,870,481
Total Net Position	<u>\$ 23,387,128</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

**Statement of Activities
For the Fiscal Year Ended April 30, 2017**

Functions/Programs	Expenses	Program Revenue		Net (Expense)/ Revenue and Changes in Net Position
		Charges for Services	Contributed Capital Assets & Grants	
Governmental Activities:				
General Government	\$ 3,070,387	\$ 1,318,796	\$ -	\$ (1,751,591)
General Revenues:				
Property Taxes				1,201,748
Personal Property Replacement Taxes				48,257
Interest				4,354
Other Fees				55,460
Amortization of Debt Issuance Premium				6,873
Total General Revenues				<u>1,316,692</u>
Change in Net Position				(434,899)
Net Position:				
May 1, 2016				23,822,027
April 30, 2017				<u>\$ 23,387,128</u>

See Notes to the Basic Financial Statements.

Fund Financial Statements

Lakes Region Sanitary District

**Balance Sheet
Governmental Funds
At April 30, 2017**

	General Fund	Repair and Replacement Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 2,921,791	\$ 1,051,169	\$ 437,853	\$ 4,410,813
Receivables:				
Property Taxes	1,207,078	-	-	1,207,078
Billed Sewer Charges	96,538	-	-	96,538
Unbilled Sewer Charges	272,219	-	-	272,219
Interest and Other	189,660	-	-	189,660
Total Assets	\$ 4,687,286	\$ 1,051,169	\$ 437,853	\$ 6,176,308
Liabilities				
Liabilities				
Accounts Payable	\$ 103,145	\$ -	\$ 6,567	\$ 109,712
Due To Other Governments	454,903	-	-	454,903
Unearned Revenue	892,315	-	-	892,315
Developer Escrow	256,877	-	57,074	313,951
Total Liabilities	1,707,240	-	63,641	1,770,881
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	580,020	-	-	580,020
Total Deferred Inflows of Resources	580,020	-	-	580,020
Fund Balances				
Unassigned, Reported in:				
General Fund	2,400,026	-	-	2,400,026
Assigned, Reported in:				
Capital Projects Funds	-	1,051,169	374,212	1,425,381
Total Fund Balances	2,400,026	1,051,169	374,212	3,825,407
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,687,286	\$ 1,051,169	\$ 437,853	\$ 6,176,308

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position At April 30, 2017

Total Fund Balances - Governmental Funds	\$ 3,825,407
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Some assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds	
Capital Assets	30,222,729
Certain pension-related items are reported as deferred outflows of resources in the government-wide financial statements.	
	65,044
Pension contributions made after the actuarial valuation date used for calculation of the net pension liability are considered expenditures in the fund financial statements but are deferred outflows of resources in the government-wide financial statements.	
	23,395
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:	
General Obligation Debt	(6,825,000)
IEPA Loans	(3,811,199)
Accrued Interest Payable	(145,433)
Net Pension Liability	(436,667)
Compensated Absences	(41,284)
Deferred Inflows of Resources reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:	
Unamortized Debt Issuance Premium (which is amortized over the life of the debt)	(58,421)
Certain pension-related items	(11,463)
Deferred Real Estate Tax Revenue: For governmental funds, only receipts within 60 days of fiscal year end are recorded as revenue, with the remainder deferred. In governmental activities, the full amount of the receivable is recorded as revenue.	
	580,020
Net Position of Governmental Activities	<u>\$ 23,387,128</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended April 30, 2017

	General Fund	Repair and Replacement Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:				
Property Taxes	\$ 1,193,291	\$ -	\$ -	\$ 1,193,291
Personal Property Replacement Tax	48,257	-	-	48,257
Sewer Connection Fees	113,567	-	-	113,567
User Fees	1,203,769	-	-	1,203,769
Penalty Fees	55,460	-	-	55,460
Sewer Permit Inspection Fees	1,460	-	-	1,460
Interest	3,172	768	414	4,354
Total Revenues	<u>2,618,976</u>	<u>768</u>	<u>414</u>	<u>2,620,158</u>
Expenditures:				
Current:				
General Government	1,269,678	33,879	-	1,303,557
Debt Service:				
Principal	926,516	-	-	926,516
Interest	417,000	-	-	417,000
Capital Outlay	19,148	-	-	19,148
Total Expenditures	<u>2,632,342</u>	<u>33,879</u>	<u>-</u>	<u>2,666,221</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(13,366)</u>	<u>(33,111)</u>	<u>414</u>	<u>(46,063)</u>
Other Financing Sources (Uses):				
Transfer In (Out)	(91,379)	93,879	(2,500)	-
IEPA Loan Proceeds	81,934	-	-	81,934
Total Other Financing Sources (Uses)	<u>(9,445)</u>	<u>93,879</u>	<u>(2,500)</u>	<u>81,934</u>
Net Change In Fund Balances	<u>(22,811)</u>	<u>60,768</u>	<u>(2,086)</u>	<u>35,871</u>
Fund Balances:				
May 1, 2016	<u>2,422,837</u>	<u>990,401</u>	<u>376,298</u>	<u>3,789,536</u>
April 30, 2017	<u>\$ 2,400,026</u>	<u>\$ 1,051,169</u>	<u>\$ 374,212</u>	<u>\$ 3,825,407</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

**Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended April 30, 2017**

Net change in fund balances—total governmental funds	\$	35,871
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures paid while governmental activities report depreciation expense to allocate those expenditures over the lives of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital Outlays	\$	19,148
Depreciation Expense	<u>(1,352,773)</u>	(1,333,625)
<p>Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:</p>		
General Obligation Debt	570,000	
IEPA Loans	<u>356,515</u>	926,515
<p>Issuance of long-term debt is reported as an other financing source in the governmental funds, but is recorded as a liability in the Statement of Net Assets. This activity results in:</p>		
Increase in long-term debt liability		(81,934)
<p>Premium on long-term debt is reported as an other financing source in the governmental funds in the year of issuance, but is recorded as a liability in the Statement of Net Position and is amortized over the life of the debt in the governmental activities:</p>		
Amortization of Debt Issuance Premium		6,873
<p>Items related to pension expense and revenue are reported as deferred inflows and outflows on the government-wide financial statements, but not on the fund financial statements.</p>		
Decrease in deferred outflows of resources related to pension expense		(12,463)
Decrease in deferred inflows of resources related to pension expense		(11,463)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:</p>		
Decrease in the accrual of Interest Expense on Long Term Debt		15,968
Increase in the accrual for Compensated Absences		(1,091)
Decrease in net pension liability		11,994
<p>Property Tax Receivable: For governmental funds, only receipts within 60 days of fiscal year end are recorded as revenue, with the remainder deferred. In governmental activities the full amount of the receivable is recorded as revenue. This activity results in:</p>		
Decrease in accrual of Property Tax Revenue		<u>8,456</u>
Change in net position of governmental activities	<u>\$</u>	<u>(434,899)</u>

See Notes to the Basic Financial Statements.

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 1. Summary of Significant Accounting Policies

The District was incorporated in 1973 under the Provisions of 70 ILCS 2805, an "Act to Create Sanitary Districts," approved July 2, 1936. The District operates under a Trustee form of government and provides construction and maintenance of sanitary sewers to the western Lake County region.

The accounting policies of the Lakes Region Sanitary District conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

(a) Financial Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of (1) the primary government, (2) component units, which are legally separate organizations for which elected officials of the primary government are financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based on these criteria, there are no potential component units which should be included with the District's general purpose financial statements, nor is the District considered to be a potential component unit of any other government.

(b) Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Government-Wide Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. The effect of material interfund activity has been eliminated from these statements.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities with the difference reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of net assets that do not meet the criteria of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first to finance qualifying activities, then unrestricted resources as they are needed.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

(b) Government-wide and Fund Financial Statements (continued)

Government-wide Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses not allocated to functions are reported separately. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and standard revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items which are not program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds. The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The District has the following major governmental funds, and reports its remaining fund as nonmajor governmental fund:

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the District and accounted for in the general fund include sanitary sewer services.

Repair and Replacement Fund - This fund is used by the District to account for major repairs required to the sewer system. Funding is provided from operating transfers from the General Fund as expenses are incurred. In addition, an annual transfer takes place to build reserves for future repairs.

(c) Measurement Focus and Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance).

Governmental fund financial statements are reported using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the current fiscal year. Expenditures are recognized when the related fund liability is incurred. Principal and interest on general long-term debt are recognized as fund liabilities only when due.

Those revenues susceptible to accrual are property taxes, replacement taxes, interest, and charges for services. Permits, inspection fees and payment penalties are not susceptible to accrual because generally they are not measurable until received in cash.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

The District considers cash and cash equivalents to be all cash accounts and certificates of deposit with a maturity date of less than two years.

Transfers

Flows of assets (such as cash) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Capital Assets

Capital assets, which include: land, buildings and improvements, sewer systems, lift stations, maintenance equipment, vehicles and office furniture and equipment are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000, and an estimated useful life of greater than one year. Additions or improvements that significantly extend the useful life of an asset are capitalized. Expenditures for asset acquisitions and improvements are stated as capital outlay expenditures in the governmental funds.

These assets have been valued at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at their estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Depreciation of capital assets is recorded in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings & Improvements*	30
Sewer Systems	40
Lift Stations	20
Maintenance Equipment	7
Vehicles	5
Office Furniture and Equipment	7

* Useful life for Building Improvements is the remaining useful life of the related building.

Gains or losses from disposals of capital assets are included in operations on the Statement of Activities.

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity (continued)

Deferred Inflows of Resources, Deferred Outflows of Resources and Unearned Revenue

The District reports both deferred inflows of resources and unearned revenues (liabilities) on its financial statements. Deferred inflows of resources arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period for the governmental funds. Additionally, deferred inflows of resources arise when revenues associated with imposed nonexchange revenue transactions (property taxes) are received or reported as a receivable before the period for which they are levied. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when connection fees are pre-paid prior to the issuance of the related sewer permit. In subsequent periods; when revenue recognition criteria is met, or when the District has a legal claim to the resources; the liability for unearned revenue is removed from the financial statements and revenue is recognized.

Deferred outflows of resources are the consumption of net position that is applicable to future reporting periods. The net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions are reported as deferred outflows or inflows of resources on the government-wide financial statements. The District’s pension payments made subsequent to the pension liability measurement date are also considered to be deferred outflows of resources on the government-wide financial statements.

Compensated Absences

Amounts of accumulated compensated absences which are expected to be paid from available financial resources of the governmental funds are reported as a liability of those funds. The District’s policies on compensated absences are as follows:

Vacation time is earned on January 1 of each year, or at the end of the probationary period for new employees. Vacation time is to be used within the calendar year that it is earned. The District shall compensate any employee who has failed to use, or schedule for use, the vacation time by December 31 in the first pay period in December. No employee may accumulate vacation pay beyond the year in which it is earned. The amount of unused vacation time eligible for payment in December is limited to a maximum of 40 hours.

Personal leave time is earned at the rate of one day for each month worked. A maximum of ten (10) days can be earned during any single calendar year. Unused personal leave at the end of each calendar year shall be accrued to a maximum of thirty (30) days. Unused personal leave in excess of thirty (30) days is payable at the option of the employee based upon 50% of the employee’s current regular straight time hourly rate multiplied by eight (8) hours for each personal leave day in excess of thirty (30) that has been accrued as of the end of the calendar year. If an employee resigns without proper notice or is terminated for cause, the employee will not be paid for unused personal leave time. The General Fund is typically used to liquidate this liability.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations, including compensated absences, are reported as liabilities in the governmental-wide Statement of Net Position. Items such as premiums and gains or losses on debt certificate sales are capitalized and amortized over the life of the related debt.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2017

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity (continued)

Fund Balance

Within the governmental fund types, the District's fund balances are reported in one of the following classifications:

Nonspendable – includes amounts that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact. At April 30, 2017, the District has no nonspendable fund balance amounts.

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. At April 30, 2017, the District has no restricted fund balance amounts.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The District's highest level of decision-making authority rests with the District's Board. The District passes formal resolutions to commit their fund balances. At April 30, 2017, the District has no committed fund balance amounts.

Assigned – includes amounts that are constrained by the District's *intent* to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by: a) the District's Board itself; or b) a body or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. The District's Board has not delegated authority to any other body or official to assign amounts for a specific purpose within the General Fund. Within the other governmental fund type (capital projects) resources are assigned in accordance with the established fund purpose and approved budget/appropriation. Residual fund balances in these fund types that are not restricted or committed are reported as assigned.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

It is the District's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. - committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

Eliminations and Reclassifications

In the process of aggregating data for the government-wide Statement of Activities, some amounts reported as interfund activity and interfund balances in the funds are eliminated or reclassified.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures/expenses during the period. Actual results could differ from these estimates.

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 1. Summary of Significant Accounting Policies (continued)

(e) New Accounting Pronouncements

GASB Statement No. 77, *Tax Abatement Disclosures*, provides disclosure guidance for governments that have granted tax abatements. This statement did not have a material effect on the District in the current year.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement did not have a material effect on the District in the current year.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. This statement did not have a material effect on the District in the current year.

See Note 10 for the effects of the implementation of new standards issued, but not yet adopted.

Note 2. Stewardship, Compliance and Accountability

Budgets

Budgets are prepared for all funds. Budgets are prepared by function and activity, and include information on the past year, current year estimates and requested appropriations for the next fiscal year. All appropriations lapse at fiscal year-end.

The proposed budget is presented to the District's Board of Trustees for review and approval. Public hearings are conducted to obtain taxpayer comments.

The budget may be amended by the District's Board of Trustees.

Expenditures may not legally exceed budgeted appropriations at fund level, as amended.

There were no funds for which expenditures exceeded budgeted appropriations for the fiscal year.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 3. Cash and Cash Equivalents

The District's investment policy is to establish cash management and investment guidelines for District Officials responsible for the stewardship of public funds. The District has established specific objectives to meet its guidelines.

The District deposits and invests all its monies in investments allowed by state statutes. The statutes authorize the District to make deposits in commercial banks and savings and loan institutions, and make investments in obligations of the U.S. Treasury and U.S. agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements (under certain statutory restrictions), commercial paper rated within the three highest classifications by at least two standard rating services and the Illinois Funds.

As of April 30, 2017, the District's Cash and Cash Equivalents are comprised of cash, money markets and certificates of deposit.

Deposits: As of April 30, 2017

The carrying amount of the District's deposits totaled	\$ 4,410,473	
The related bank balances totaled		<u>\$ 4,410,939</u>
Cash on hand totaled	340	
Cash and Cash Equivalents - as reported in the financial statements	<u>\$ 4,410,813</u>	

Custodial credit risk - deposits

In the case of deposits, this is the risk, that in the event of a bank failure, the District's deposits may not be returned to the District.

As of April 30, 2017, all of the District's bank balance is covered by federal depository insurance or collateral held by the pledging financial institution's trust department, or its agent, in the District's name. There is no amount of bank balance covered by collateral held by a pledging financial institution, or its trust department, or its agent, but not in the District's name; or deposits which are uninsured or uncollateralized.

Note 4. Property Taxes

The District annually establishes a legal right to the property tax assessments upon the enactment of a tax levy ordinance by the District's Board of Trustees. These tax assessments are levied in December and attach as an enforceable lien on the previous January 1. Tax bills are prepared by the County and issued on or about May 1, and are payable in two installments which become delinquent on or about June 1 and September 1.

Property taxes are billed, collected and remitted periodically by the County Treasurer of Lake County, Illinois. A reduction for collection losses based on historical collection experience has been provided to reduce the taxes receivable to the estimated amount to be collected. That portion of the property taxes receivable which is not expected to be collected within sixty (60) days after year end is not considered to pay current liabilities and is, therefore, shown as a deferred inflow in the governmental funds.

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 5. Capital Assets

A summary of changes in the capital assets for governmental activities of the District for the year ended April 30, 2017 is as follows:

	Balance at May 1, 2016	Additions	Deletions	Balance at April 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 162,875	\$ -	\$ -	\$ 162,875
Construction in progress - sewers	17,177	19,148	(19,148)	17,177
Total capital assets not being depreciated	180,052	19,148	(19,148)	180,052
Capital assets being depreciated:				
Sewer system	36,991,695	-	-	36,991,695
Lift stations	7,387,510	10,883	-	7,398,393
Building and improvements	1,918,028	-	-	1,918,028
Office furniture and equipment	14,156	-	-	14,156
Computer hardware	10,234	-	-	10,234
Maintenance equipment	117,094	8,265	-	125,359
Vehicles	37,720	-	-	37,720
Total capital assets being depreciated	46,476,437	19,148	-	46,495,585
Less accumulated depreciation for:				
Sewer system	10,351,221	924,792	-	11,276,013
Lift stations	3,106,800	353,984	-	3,460,784
Building and improvements	1,491,248	63,934	-	1,555,182
Office furniture and equipment	9,012	1,527	-	10,539
Computer hardware	5,117	2,047	-	7,164
Maintenance equipment	115,317	2,369	-	117,686
Vehicles	21,420	4,120	-	25,540
Total accumulated depreciation	15,100,135	1,352,773	-	16,452,908
Total capital assets being depreciated, net	31,376,302	(1,333,625)	-	30,042,677
Governmental activities Capital assets, net	\$ 31,556,354	\$ (1,314,477)	\$ (19,148)	\$ 30,222,729

All depreciation was charged to General Government.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 6. Debt Obligations

The following is a summary of debt obligation activity for the District associated with governmental activities for the year ended April 30, 2017:

	Outstanding Debt as of May 1, 2016	Additions	Reductions	Outstanding Debt as of April 30, 2017	Due within one year
IEPA Loan L17-1123	\$ 344,318	\$ -	\$ 95,191	\$ 249,127	\$ 97,706
IEPA Loan L17-2123	3,106,718	-	236,315	2,870,403	242,257
IEPA Loan L17-4894	634,745	81,934	25,010	691,669	29,655
Series 2006 General Obligation Debt Certificates	3,530,000	-	485,000	3,045,000	420,000
Series 2010 General Obligation Debt Certificates	3,865,000	-	85,000	3,780,000	85,000
Net Pension Liability	448,661	-	11,994	436,667	-
Compensated Absences	40,193	63,905	62,814	41,284	41,284
	<u>\$ 11,969,635</u>	<u>\$ 145,839</u>	<u>\$ 1,001,324</u>	<u>\$ 11,114,150</u>	<u>\$ 915,902</u>

Outstanding debt as of April 30, 2017 consists of the following:

IEPA Loan L17-1123:

IEPA loan due in semi-annual installments of \$51,804, including interest of 2.625%, through June 30, 2019. \$ 249,127

IEPA Loan L17-2123:

IEPA loan due in semi-annual installments of \$156,258, including interest of 2.500%, through June 30, 2027. 2,870,403

IEPA Loan L17-4894:

IEPA loan due in semi-annual installments of \$22,389, including interest of 2.210%, through February 14, 2036. 691,669

Series 2006 General Obligation Debt Certificates:

General Obligation Debt Certificates, due on December 1, 2025. Interest of 4.200% to 7.000%, payable semi-annually on June 1 and December 1. 3,045,000

Series 2010 General Obligation Debt Certificates:

General Obligation Debt Certificates, due on December 1, 2029. Interest of 2.000% to 4.500%, payable semi-annually on June 1 and December 1. 3,780,000

Net Pension Liability 436,667

Compensated Absences 41,284

Total Debt Obligations \$ 11,114,150

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 6. Debt Obligations (continued)

The annual debt service requirements to maturity are as follows:

Fiscal Years Ending April 30:	Governmental		
	Principal	Interest	Total
2018	\$ 874,620	\$ 370,485	\$ 1,245,105
2019	1,023,955	340,960	1,364,915
2020	1,036,722	307,698	1,344,420
2021	1,007,683	273,339	1,281,022
2022	1,014,952	238,269	1,253,221
2023-2027	4,340,298	670,902	5,011,200
2028-2032	1,167,444	106,389	1,273,833
2033-2036	170,525	8,588	179,113
Total	\$ 10,636,199	\$ 2,316,630	\$ 12,952,829

The District's legal debt limitation as of April 30, 2017 was determined as follows:

Assessed Valuation at December 31, 2016	<u>\$511,389,168</u>
Legal Debt Limit - 5.75% of Assessed Valuation	<u>\$ 29,404,877</u>
Amount of debt applicable to the Legal Debt Limit:	
IEPA Loan L17-1123	249,127
IEPA Loan L17-2123	2,870,403
IEPA Loan L17-4894	691,669
Series 2006 General Obligation Debt Certificates	3,045,000
Series 2010 General Obligation Debt Certificates	3,780,000
	<u>10,636,199</u>
Legal Debt Margin	<u>\$ 18,768,678</u>

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund

a) Plan Description.

The District's defined benefit pension plan for regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The district plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of a multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this document. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. The report is available for download at www.imrf.org.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017**

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund (continued)

b) Benefits Provided.

The District participates in the Regular Plan (RP).

Employees hired before January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after 10 years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with 10 years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3% of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount.

c) Contributions.

As set by statute, the District's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's annual contribution rate for calendar year 2017 is 12.34% and for calendar year 2016 was 12.50%. For the fiscal year ended April 30, 2017, the District contributed \$69,457 to the plan. The District also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

d) Employees Covered by Benefit Terms.

As of December 31, 2016, the following employees were covered by the benefit terms:

Retirees and Beneficiaries currently receiving benefits	2
Inactive Plan Members entitled to but not yet receiving benefits	2
Active Plan Members	7
Total	<u>11</u>

e) Net Pension Liability.

The District's net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund (continued)

f) Actuarial Assumptions.

The following are the methods and assumptions used to determine total pension liability at December 31, 2016:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Asset Valuation Method** used was Market Value of Assets.
- The **Inflation Rate** was assumed to be 2.75%.
- **Salary Increases** were expected to be 3.75% to 14.50%, including inflation.
- The **Investment Rate of Return** was assumed to be 7.50%.
- **Projected Retirement Age** was from the Experience-Based Table of Rates, specific to the type of eligibility condition, last updated for the 2014 valuation according to an experience study from years 2011 to 2013.
- The IMRF-specific rates for **Mortality** (for non-disabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience.
- For **Disabled Retirees**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives.
- For **Active Members**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.
- The **Long-Term Expected Rate of Return** on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	38 %	7.77 %
International equity	17	3.54
Fixed income	27	4.85
Real estate	8	8.97
Alternative investments	9	4.25 - 12.45
Cash equivalents	1	2.25
	100 %	

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund (continued)

g) Single Discount Rate.

A Single Discount Rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.78%, and the resulting single discount rate is 7.50%.

h) Changes in the Net Pension Liability

	Total Pension Liability (Asset) (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (Asset) (A)-(B)
Balances at December 31, 2015	\$ 1,727,505	\$ 1,278,844	\$ 448,661
Changes for the year:			
Service Cost	63,366	-	63,366
Interest on the Total Pension Liability	129,399	-	129,399
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience of the Total Pension Liability	(1,724)	-	(1,724)
Changes of Assumptions	(12,241)	-	(12,241)
Contributions - Employer	-	68,893	(68,893)
Contributions - Employees	-	24,802	(24,802)
Net Investment Income	-	90,238	(90,238)
Benefit Payments, including Refunds of Employee Contributions	(44,568)	(44,568)	-
Other (Net Transfer)	-	6,861	(6,861)
Net Changes	134,232	146,226	(11,994)
Balances at December 31, 2016	\$ 1,861,737	\$ 1,425,070	\$ 436,667

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund (continued)

i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following table presents the plan's net pension liability, calculated using a Single Discount Rate of 7.45%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net pension liability	\$ 700,784	\$ 436,667	\$ 218,672

j) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.

For the year ended April 30, 2017, the District recognized pension expense of \$91,450. At April 30, 2017, the District reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,658	\$ 1,415
Net difference between projected and actual earnings on pension plan investments	58,920	-
Changes of assumptions	1,466	10,048
Total deferred amounts to be recognized in pension expense in future periods	65,044	11,463
Employer contribution subsequent to the measurement date	23,395	-
Total deferred amounts related to pensions	<u>\$ 88,439</u>	<u>\$ 11,463</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future periods as follows:

Year ended December 31:	Net Deferred Outflows of Resources
2016	\$ 18,300
2017	18,300
2018	18,302
2019	134
2020	(1,455)
	<u>\$ 53,581</u>

Note 8. Transfers

Interfund transfers were used to:

- Record payments from the General Fund for expenditures incurred by other funds.
- Transfer the annual funding amount for the Repair and Replacement Fund.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2017

Note 9. Risk Management

The District is exposed to various risks of loss related to workers' compensation and torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims resulting from those risks have not exceeded commercial insurance coverage in any of the past three years. The District has not had significant reductions in insurance coverage during the year.

Note 10. Pronouncements Issued But Not Yet Adopted

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pension that are not within the scope of Statement 68. It also amends certain provisions of Statement, No. 67, *Financial Reporting for Pension Plans* and Statement 68 for pension plans and pensions that are within their respective scopes. This statement will be effective for the District beginning with its year ended April 30, 2018.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB) included in the general purpose external financial reports of states and local government OPEB plans for making decisions and assessing accountability. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This statement will be effective for the District beginning with its year ended April 30, 2018.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will be effective for the District beginning with its year ended April 30, 2019.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. This statement will be effective for the District beginning with its year ended April 30, 2019.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This statement will be effective for the District beginning with its year ended April 30, 2020.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the District beginning with its year ended April 30, 2020.

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2017

Note 10. Pronouncements Issued But Not Yet Adopted (continued)

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement will be effective for the District beginning with its year ended April 30, 2019.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This statement will be effective for the District beginning with its year ended April 30, 2019.

GASB Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. This statement will be effective for the District beginning with its year ended April 30, 2021.

Management does not believe these statements will have a significant effect, if any, on its financial statements.

Required Supplementary Information

Lakes Region Sanitary District

**Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual**

General Fund

For the Fiscal Year Ended April 30, 2017

	Original & Final Budget	Actual	Favorable/ (Unfavorable) Variance with Final Budget
Revenues:			
Property Taxes	\$ 1,100,000	\$ 1,193,291	\$ 93,291
Personal Property Replacement Tax	35,000	48,257	13,257
Sewer Connection Fees	210,000	113,567	(96,433)
User Fees	1,150,000	1,203,769	53,769
Penalty Fees	-	55,460	55,460
Sewer Permit Inspection Fees	3,200	1,460	(1,740)
Interest	2,000	3,172	1,172
Total Revenues	<u>2,500,200</u>	<u>2,618,976</u>	<u>118,776</u>
Expenditures:			
Current:			
General Government	1,377,800	1,269,678	108,122
Debt Service:			
Principal	918,700	926,516	(7,816)
Interest	422,300	417,000	5,300
Capital Outlay	-	19,148	(19,148)
Total Expenditures	<u>2,718,800</u>	<u>2,632,342</u>	<u>86,458</u>
Deficiency of Revenues Under Expenditures	<u>(218,600)</u>	<u>(13,366)</u>	<u>205,234</u>
Other Financing Sources (Uses):			
Transfers Out	(760,000)	(91,379)	668,621
IEPA Loan	700,000	81,934	(618,066)
Total Other Financing Uses	<u>(60,000)</u>	<u>(9,445)</u>	<u>50,555</u>
Net Change In Fund Balances	<u>\$ (278,600)</u>	<u>(22,811)</u>	<u>\$ 255,789</u>
Fund Balances:			
May 1, 2016		<u>2,422,837</u>	
April 30, 2017		<u>\$ 2,400,026</u>	

Note to Schedule - Budgetary Basis of Accounting

The General Fund budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Lakes Region Sanitary District					
Schedule of Employer Contributions					
Illinois Municipal Retirement Fund					
Last 10 Calendar Years					
Calendar Year Ended December 31,	Actuarially Determined Contribution*	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a Percentage of Covered Valuation Payroll
2016	\$ 68,892	\$ 68,893	\$ (1)	\$ 551,138	12.50%
2015	65,023	65,022	1	529,503	12.28%

Lakes Region Sanitary District		
Schedule of Changes in the Net Pension Liability and Related Ratios		
Illinois Municipal Retirement Fund		
Last 10 Calendar Years		
Calendar Year Ended December 31	2016	2015
Total Pension Liability		
Service Cost	\$ 63,366	\$ 61,183
Interest on the Total Pension Liability	129,399	118,658
Differences Between Expected and Actual Experience of the Total Pension Liability	(1,724)	7,216
Changes of Assumptions	(12,241)	2,270
Benefit Payments, including Refunds of Employee Contributions	(44,568)	(43,643)
Net Change in Total Pension Liability	134,232	145,684
Total Pension Liability - Beginning	1,727,505	1,581,821
Total Pension Liability - Ending (A)	\$1,861,737	\$1,727,505
Plan Fiduciary Net Position		
Contributions - Employer	\$ 68,893	\$ 65,022
Contributions - Employee	24,802	23,828
Net Investment Income	90,238	6,301
Benefit Payments, including Refunds of Employee Contributions	(44,568)	(43,643)
Other (Net Transfer)	6,861	(10,323)
Net Change in Plan Fiduciary Net Position	146,226	41,185
Plan Fiduciary Net Position - Beginning	1,278,844	1,237,659
Plan Fiduciary Net Position - Ending (B)	\$1,425,070	\$1,278,844
Net Pension Liability (A) - (B)	\$ 436,667	\$ 448,661
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.55%	74.03%
Covered Valuation Payroll	\$ 551,138	\$ 529,503
Net Pension Liability as a Percentage of Covered Valuation Payroll	79.23%	84.73%

Note to Schedules – Last 10 Calendar Years

The above schedules are presented to illustrate the requirement to show information for 10 calendar years as required by GASB Standard No. 68. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.