

# **Lakes Region Sanitary District Ingleside, Illinois**

Annual Financial Report  
For the Fiscal Year Ended April 30, 2018

Prepared by:  
Lakes Region Sanitary District  
Ingleside, IL

## Lakes Region Sanitary District

Fiscal Year Ended April 30, 2018

### Table of Contents

---

#### Financial Section

Independent Auditor's Report	1 – 2
Required Supplementary Information Management Discussion and Analysis	3 – 10
Basic Financial Statements	
Government–Wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	16
Notes to the Basic Financial Statements	17 – 30
Required Supplementary Information	
Governmental Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	31
Note to Schedule - Budgetary Basis of Accounting	31
Illinois Municipal Retirement Fund	
Last 10 Calendar Years	
Schedule of Employer Contributions	32
Schedule of Changes in the Net Pension Liability and Related Ratios	32
Note to Schedules – Last 10 Calendar Years	32



## **INDEPENDENT AUDITORS' REPORT**

July 9, 2018

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

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, 2018, 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 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 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 of 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 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 District'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 District'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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents and budgetary information reported in the required supplementary information as listed in the table of contents, 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 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.

*Lauterbach + Amen LLP*  
LAUTERBACH & AMEN, LLP

**Required Supplementary Information**

## **Management Discussion and Analysis**

## Lakes Region Sanitary District

### Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2018

---

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, 2018. 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 \$25,241,655. Of this amount, \$4,001,972 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 increased by \$1,854,527. This represents an increase of 7.9% in net position from fiscal year 2017. This is primarily the result of contributed capital assets, higher sewer connection fees and lower expenses related to repair projects completed during the fiscal year.
- Property tax revenue was \$1,240,632 or 25.3% of all revenues. This represents an increase of 3.2% from fiscal year 2017; due to a recovering tax base and steady tax rate.
- Connection and user fees were \$2,024,528 or 41.3% of all revenues. This represents an increase of 53.5% from fiscal year 2017, due to a large commercial connection, increased activity in home construction and 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 \$4,587,858. This represents an increase of 19.9% from fiscal year 2017.
- At the end of the fiscal year, the fund balance for the General Fund was all unassigned in the amount of \$3,111,474, or 124.1% 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 fluctuations 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.

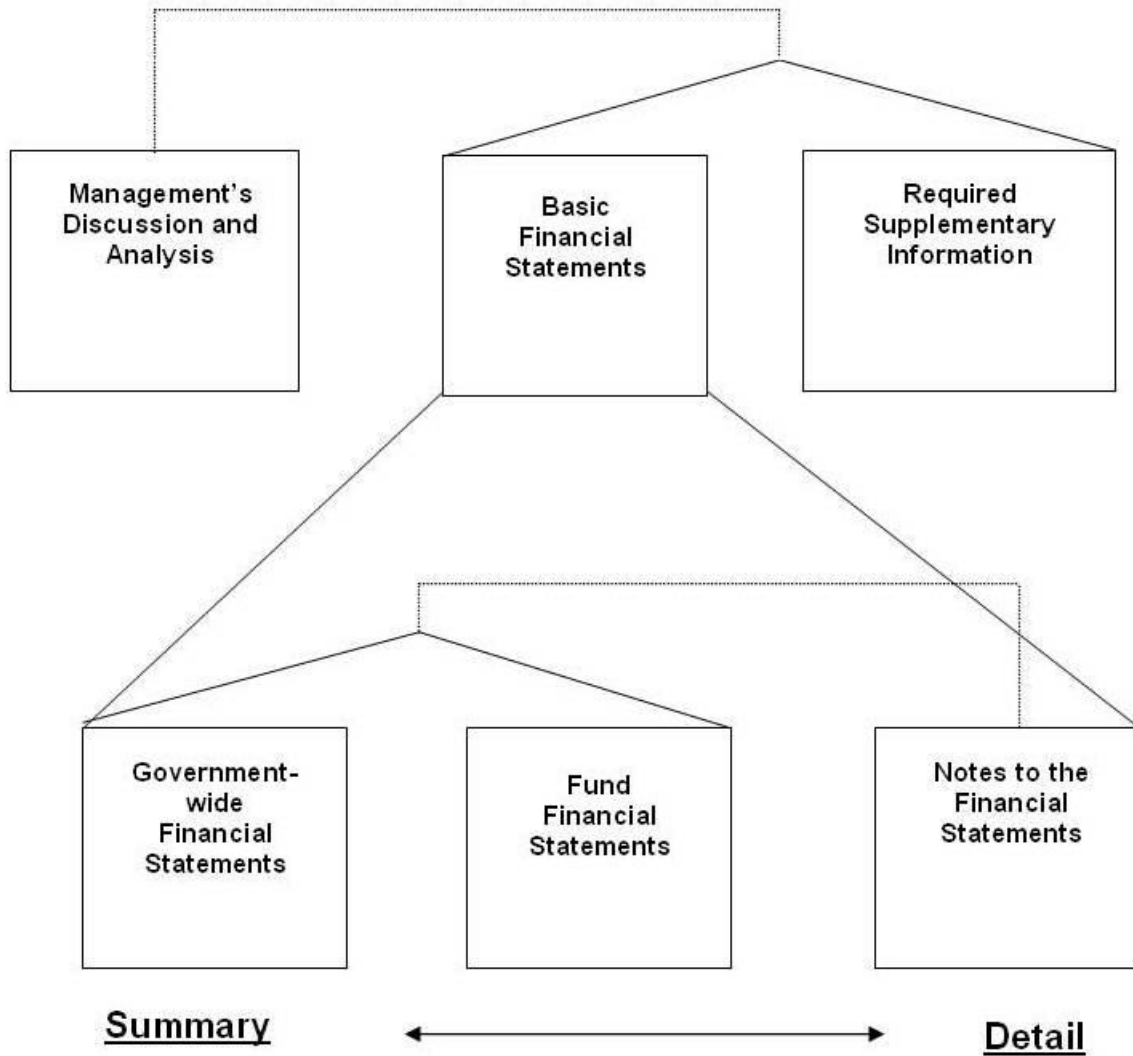
Lakes Region Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended April 30, 2018

---

Figure A-1

Organization of Lakes Region Sanitary District's Annual Financial Report



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, 2018

---

#### ***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 outflows, liabilities and deferred inflows 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 2018, 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, 2018

---

#### **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 \$25,241,655. This represents an increase of \$1,854,527 from fiscal year 2017.

<b>Table 1 Condensed Statement of Net Position At April 30, (in dollars)</b>	<b>2018</b>	<b>2017</b>
Current Assets	\$ 6,896,242	\$ 6,176,308
Noncurrent Assets		
Capital Assets	30,390,795	30,222,729
Total Assets	<u>\$ 37,287,037</u>	<u>\$ 36,399,037</u>
Deferred Outflows of Resources	<u>\$ 60,429</u>	<u>\$ 88,439</u>
Current Liabilities	\$ 2,916,128	\$ 2,832,216
Long Term Liabilities, Net of Current Maturities	8,925,632	10,198,248
Total Liabilities	<u>\$ 11,841,760</u>	<u>\$ 13,030,464</u>
Deferred Inflows of Resources	<u>\$ 264,051</u>	<u>\$ 69,884</u>
Net Position:		
Net Investment in Capital Assets	\$ 21,239,683	\$ 20,219,778
Unrestricted	4,001,972	3,167,350
Total Net Position	<u>\$ 25,241,655</u>	<u>\$ 23,387,128</u>

**Lakes Region Sanitary District**

**Management's Discussion and Analysis  
For the Fiscal Year Ended April 30, 2018**

**Changes in Net Position** (Table 2).

The District's total revenues were \$4,902,929, which includes:

- \$1,240,632 from property taxes, 25.3% of the total. This represents an increase of 3.2% from fiscal year 2017.
- \$2,024,528 from fees charged for services, 41.3% of the total. This represents an increase of 53.5% from fiscal year 2017.
- \$98,769 from miscellaneous sources such as personal property replacement tax, interest and penalty fees. This represents a decrease of 14.1% from fiscal year 2017.
- \$1,539,000 from contributed capital assets. There have been no contributed capital assets since fiscal year 2015.

The total cost of all programs and services was \$3,048,402. This represents a decrease of 0.7% from fiscal year 2017. 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 revenues exceeded expenses, increasing net position by \$1,854,527.

<b>Table 2</b>		
<b>Condensed Statement of Activities</b>		
<b>For the Fiscal Year Ended April 30,</b>		
<b>(in dollars)</b>		
	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 2,024,528	\$ 1,318,796
Contributed Capital Assets & Grants	1,539,000	-
General Revenues:		
Taxes	1,281,010	1,250,005
Other	58,391	66,687
<b>Total Revenues</b>	<b>4,902,929</b>	<b>2,635,488</b>
<b>Expenses:</b>		
Governmental Activities	3,048,402	3,070,387
<b>Increase (Decrease) in Net Position</b>	<b>1,854,527</b>	<b>(434,899)</b>
Net Position - Beginning	23,387,128	23,822,027
<b>Net Position - Ending</b>	<b>\$ 25,241,655</b>	<b>\$ 23,387,128</b>

## Lakes Region Sanitary District

### Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2018

---

#### Financial Analysis of the District's Funds

As the District completed the fiscal year, its governmental funds reported combined fund balances of \$4,587,858, an increase of 19.9% from fiscal year 2017. Revenues and other financing sources for the District's governmental funds were \$3,349,772, an increase of 24.0%, primarily due to the effect of significantly increased connection fee activity. Total expenditures were \$2,587,321, a decrease of 3.0%, primarily due to lower debt service expenditures and staff reductions.

For the fiscal year, the General Fund experienced an operating excess, after other financing uses, of \$711,448. Factors that attributed to the excess are primarily the aforementioned increased connection fee activity, lower debt service expenditures and staff reductions.

#### General Fund Budgetary Highlights

While the District's budget for the General Fund anticipated that expenditures would be an operating deficit of \$110,600 against revenues before other financing uses, the actual result for the fiscal year was an operating excess of \$842,513.

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.
- Staff reduction.

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 continued recovery of new home sales in the Volo South area.
  - Property Taxes due to the increase in equalized assessed valuation from the recovery in the housing market, tempered by a flat tax rate.
  - A large commercial connection that was not anticipated.
  - Higher replacement tax.

Lakes Region Sanitary District

Management's Discussion and Analysis  
For the Fiscal Year Ended April 30, 2018

---

Capital Asset and Debt Administration

**Capital Assets** (Table 3)

At the end of fiscal year 2018, the District had invested \$48,214,637 (before accumulated depreciation of \$17,823,842) 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 \$1,370,934.

Net additions to capital assets amounted to \$1,539,000. 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.

<b>Table 3 Condensed Schedule of Capital Assets At April 30, (in dollars)</b>	<b>2018</b>	<b>2017</b>
Construction in Process	\$ 17,177	\$ 17,177
Sewers and Lift Stations	45,929,088	44,390,088
Land, Buildings and Improvements	2,080,903	2,080,903
Office Equipment	24,390	24,390
Maintenance Equipment and Vehicles	163,079	163,079
Investment in Capital Assets, Cost	48,214,637	46,675,637
Less: Accumulated Depreciation	17,823,842	16,452,908
Investment in Capital Assets, Net	\$ 30,390,795	\$ 30,222,729

**Long Term Debt**

The long term debt carried by the District is related to the construction of capital projects and repairs. 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, 2018**

---

#### **Factors Bearing on the District's Future**

At April 30, 2018, 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 2019.
- The County of Lake and the District have begun consolidation proceedings which will ultimately result in the dissolution of the District and consolidation into the County of Lake.

#### **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, 2018

	Governmental Activities
<b>Assets</b>	
Current Assets	
Cash and Cash Equivalents	\$ 5,175,996
Receivables:	
Property Taxes	1,243,342
Billed Sewer Charges	97,994
Unbilled Sewer Charges	297,371
Interest and Other	81,539
<b>Total Current Assets</b>	<u>6,896,242</u>
Noncurrent Assets	
Capital Assets Not Being Depreciated	180,052
Capital Assets Being Depreciated, Net	30,210,743
<b>Total Noncurrent Assets</b>	<u>30,390,795</u>
<b>Total Assets</b>	<u>37,287,037</u>
Deferred Outflows of Resources	
Pension Actuarial Adjustments	16,187
Deferred Pension Contributions	44,242
<b>Total Deferred Outflows of Resources</b>	<u>60,429</u>
Liabilities	
Current Liabilities	
Accounts Payable	117,637
Accrued Interest Payable	134,028
Accrued Payroll	1,632
Compensated Absences	37,064
Due To Other Governments	489,464
Unearned Revenue	806,955
Developer Escrow	298,519
General Obligation Debt - Net	651,873
IEPA Loans	378,956
<b>Total Current Liabilities</b>	<u>2,916,128</u>
Long Term Liabilities, Net of Current Maturities	
General Obligation Debt - Net	5,719,675
IEPA Loans	3,062,622
Net Pension Liability	143,335
<b>Total Long Term Liabilities, Net of Current Maturities</b>	<u>8,925,632</u>
<b>Total Liabilities</b>	<u>11,841,760</u>
Deferred Inflows of Resources	
Pension Actuarial Adjustments	264,051
<b>Total Deferred Inflows of Resources</b>	<u>264,051</u>
<b>Net Position</b>	
Net Investment in Capital Assets	21,239,683
Unrestricted	4,001,972
<b>Total Net Position</b>	<u>\$ 25,241,655</u>

See Notes to the Basic Financial Statements.

**Lakes Region Sanitary District**

**Statement of Activities**

**For the Fiscal Year Ended April 30, 2018**

Functions/Programs	Expenses	Program Revenue		Net (Expense)/ Revenue and Changes in Net Position
		Charges for Services	Contributed Capital Assets & Grants	
Governmental Activities:				
General Government	\$ 2,707,600	\$ 2,024,528	\$ 1,539,000	\$ 855,928
Interest on Long-Term Debt	340,802	-	-	(340,802)
Total Governmental Activities	<u>\$ 3,048,402</u>	<u>\$ 2,024,528</u>	<u>\$ 1,539,000</u>	<u>515,126</u>
General Revenues:				
Property Taxes				1,240,632
Personal Property Replacement Taxes				40,378
Interest				4,220
Other Fees				54,171
Total General Revenues				<u>1,339,401</u>
Change in Net Position				1,854,527
Net Position:				
May 1, 2017				23,387,128
April 30, 2018				<u>\$ 25,241,655</u>

**Fund Financial Statements**

Lakes Region Sanitary District

**Balance Sheet  
Governmental Funds  
At April 30, 2018**

	General Fund	Repair and Replacement Fund	Sewer Construction Fund	Total Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ 3,645,212	\$ 1,111,364	\$ 419,420	\$ 5,175,996
Receivables:				
Property Taxes	1,243,342	-	-	1,243,342
Billed Sewer Charges	97,994	-	-	97,994
Unbilled Sewer Charges	297,371	-	-	297,371
Interest and Other	81,538	-	-	81,538
<b>Total Assets</b>	<b>\$ 5,365,457</b>	<b>\$ 1,111,364</b>	<b>\$ 419,420</b>	<b>\$ 6,896,241</b>
<b>Liabilities</b>				
Liabilities				
Accounts Payable	\$ 104,878	\$ -	\$ 12,759	\$ 117,637
Accrued Payroll	1,632	-	-	1,632
Due To Other Governments	489,464	-	-	489,464
Unearned Revenue	806,955	-	-	806,955
Developer Escrow	256,877	-	41,641	298,518
<b>Total Liabilities</b>	<b>1,659,806</b>	<b>-</b>	<b>54,400</b>	<b>1,714,206</b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue - Property Taxes	594,177	-	-	594,177
<b>Total Deferred Inflows of Resources</b>	<b>594,177</b>	<b>-</b>	<b>-</b>	<b>594,177</b>
<b>Fund Balances</b>				
Unassigned, Reported in:				
General Fund	3,111,474	-	-	3,111,474
Assigned, Reported in:				
Capital Projects Funds	-	1,111,364	365,020	1,476,384
<b>Total Fund Balances</b>	<b>3,111,474</b>	<b>1,111,364</b>	<b>365,020</b>	<b>4,587,858</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,365,457</b>	<b>\$ 1,111,364</b>	<b>\$ 419,420</b>	<b>\$ 6,896,241</b>

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, 2018**

Total Fund Balances - Governmental Funds	\$ 4,587,858
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	30,390,795
Certain pension-related items are reported as deferred outflows of resources in the government-wide financial statements.	44,242
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.	16,187
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	(6,371,548)
IEPA Loans	(3,441,578)
Accrued Interest Payable	(134,028)
Net Pension Liability	(143,335)
Compensated Absences	(37,064)
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:	
Certain pension-related items	(264,051)
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.	594,177
Net Position of Governmental Activities	<u>\$ 25,241,655</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, 2018

	General Fund	Repair and Replacement Fund	Sewer Construction Fund	Total Governmental Funds
Revenues:				
Property Taxes	\$ 1,226,475	\$ -	\$ -	\$ 1,226,475
Personal Property Replacement Tax	40,378	-	-	40,378
Sewer Connection Fees	790,346	-	-	790,346
User Fees	1,229,158	-	-	1,229,158
Penalty Fees	54,171	-	-	54,171
Sewer Permit Inspection Fees	5,024	-	-	5,024
Interest	3,217	195	808	4,220
<b>Total Revenues</b>	<b>3,348,769</b>	<b>195</b>	<b>808</b>	<b>3,349,772</b>
Expenditures:				
Current:				
General Government	1,261,151	81,065	-	1,342,216
Debt Service:				
Principal	874,620	-	-	874,620
Interest	370,485	-	-	370,485
<b>Total Expenditures</b>	<b>2,506,256</b>	<b>81,065</b>	<b>-</b>	<b>2,587,321</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	842,513	(80,870)	808	762,451
Other Financing Sources (Uses):				
Transfer In (Out)	(131,065)	141,065	(10,000)	-
IEPA Loan Proceeds	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(131,065)</b>	<b>141,065</b>	<b>(10,000)</b>	<b>-</b>
<b>Net Change In Fund Balances</b>	<b>711,448</b>	<b>60,195</b>	<b>(9,192)</b>	<b>762,451</b>
Fund Balances:				
May 1, 2017	2,400,026	1,051,169	374,212	3,825,407
April 30, 2018	\$ 3,111,474	\$ 1,111,364	\$ 365,020	\$ 4,587,858

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, 2018**

Net change in fund balances—total governmental funds	\$	762,451
<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	\$	-
Depreciation Expense	<u>(1,370,934)</u>	(1,370,934)
<p>Capital assets that are donated to the District are reported as revenue in the governmental activities while not reported in governmental funds since not requiring current financial resources</p>		
		1,539,000
<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	505,000	
IEPA Loans	<u>369,621</u>	874,621
<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		(28,010)
Decrease in deferred inflows of resources related to pension expense		(252,588)
<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		11,405
Decrease in the accrual for Compensated Absences		4,220
Decrease in net pension liability		293,332
<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>14,157</u>
Change in net position of governmental activities	<u>\$</u>	<u>1,854,527</u>

See Notes to the Basic Financial Statements.

## Lakes Region Sanitary District

### Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2018

---

#### 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, 2018

---

#### 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 governmental funds:

*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.

*Sewer Construction Fund* - This fund is used by the District to account for financial resources to be used for the acquisition or construction of major capital facilities.

##### ***(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, 2018**

---

**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
Computer Hardware	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, 2018

---

#### 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, 2018, 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, 2018, 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, 2018, 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.

## Lakes Region Sanitary District

### Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2018

---

#### 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.

#### 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, 2018, the District's Cash and Cash Equivalents are comprised of cash, money markets and certificates of deposit.

##### Deposits: As of April 30, 2018

The carrying amount of the District's deposits totaled	\$ 5,175,656	
The related bank balances totaled		<u>\$ 5,150,649</u>
Cash on hand totaled	340	
Cash and Cash Equivalents - as reported in the financial statements	<u>\$ 5,175,996</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, 2018, 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.

**Lakes Region Sanitary District**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018**

**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.

**Note 5. Capital Assets**

A summary of changes in the capital assets for governmental activities of the District for the year ended April 30, 2018 is as follows:

	Balance at May 1, 2017	Additions	Deletions	Balance at April 30, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 162,875	\$ -	\$ -	\$ 162,875
Construction in progress - sewers	17,177	-	-	17,177
Total capital assets not being depreciated	180,052	-	-	180,052
Capital assets being depreciated:				
Sewer system	36,991,695	1,539,000	-	38,530,695
Lift stations	7,398,393	-	-	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	125,359	-	-	125,359
Vehicles	37,720	-	-	37,720
Total capital assets being depreciated	46,495,585	1,539,000	-	48,034,585
Less accumulated depreciation for:				
Sewer system	11,276,013	944,030	-	12,220,043
Lift stations	3,460,784	354,588	-	3,815,372
Building and improvements	1,555,182	63,934	-	1,619,116
Office furniture and equipment	10,539	1,033	-	11,572
Computer hardware	7,164	2,047	-	9,211
Maintenance equipment	117,686	1,181	-	118,867
Vehicles	25,540	4,121	-	29,661
Total accumulated depreciation	16,452,908	1,370,934	-	17,823,842
Total capital assets being depreciated, net	30,042,677	168,066	-	30,210,743
Governmental activities Capital assets, net	\$ 30,222,729	\$ 168,066	\$ -	\$ 30,390,795

All depreciation was charged to General Government.

**Lakes Region Sanitary District**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018**

**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, 2018:

	Outstanding Debt as of May 1, 2017	Additions	Reductions	Outstanding Debt as of April 30, 2018	Due within one year
IEPA Loan L17-1123	\$ 249,127	\$ -	\$ 97,706	\$ 151,421	\$ 100,288
IEPA Loan L17-2123	2,870,403	-	242,260	2,628,143	248,354
IEPA Loan L17-4894	691,669	-	29,655	662,014	30,314
Series 2006 General Obligation Debt Certificates	3,045,000	-	420,000	2,625,000	305,000
Unamortized Debt Issuance Premium	58,421	-	6,873	51,548	6,873
Series 2010 General Obligation Debt Certificates	3,780,000	-	85,000	3,695,000	340,000
Net Pension Liability	436,667	-	293,332	143,335	-
Compensated Absences	41,284	44,371	48,591	37,064	37,064
	<u>\$ 11,172,571</u>	<u>\$ 44,371</u>	<u>\$ 1,223,417</u>	<u>\$ 9,993,525</u>	<u>\$ 1,067,893</u>

Outstanding debt as of April 30, 2018 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. \$ 151,421

IEPA Loan L17-2123:

IEPA loan due in semi-annual installments of \$156,258, including interest of 2.500%, through June 30, 2027. 2,628,143

IEPA Loan L17-4894:

IEPA loan due in semi-annual installments of \$22,389, including interest of 2.210%, through February 14, 2036. 662,014

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. 2,625,000  
Unamortized Debt Issuance Premium 51,548

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. 3,695,000

Net Pension Liability 143,335

Compensated Absences 37,064

**Total Debt Obligations** \$ 9,993,525

Lakes Region Sanitary District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018

**Note 6. Debt Obligations (continued)**

The annual debt service requirements to maturity are as follows:

Fiscal Years Ending April 30:	Governmental		
	Principal	Interest	Total
2019	\$ 1,030,828	\$ 340,960	\$ 1,371,788
2020	\$ 1,043,595	307,698	1,351,293
2021	\$ 1,014,556	273,339	1,287,895
2022	\$ 1,021,825	238,269	1,260,094
2023	\$ 964,276	201,306	1,165,582
2024-2028	\$ 3,861,351	515,921	4,377,272
2029-2033	\$ 747,407	63,606	811,013
2034-2036	\$ 129,288	5,046	134,334
<b>Total</b>	<b>\$ 9,813,126</b>	<b>\$ 1,946,145</b>	<b>\$ 11,759,271</b>

The District's legal debt limitation as of April 30, 2018 was determined as follows:

Assessed Valuation at December 31, 2017	<u>\$ 534,375,615</u>
Legal Debt Limit - 5.75% of Assessed Valuation	<u>\$ 30,726,598</u>
Amount of debt applicable to the Legal Debt Limit:	
IEPA Loan L17-1123	151,421
IEPA Loan L17-2123	2,628,143
IEPA Loan L17-4894	662,014
Series 2006 General Obligation Debt Certificates	2,625,000
Unamortized Debt Issuance Premium	51,548
Series 2010 General Obligation Debt Certificates	<u>3,695,000</u>
	<u>9,813,126</u>
Legal Debt Margin	<u>\$ 20,913,472</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](http://www.imrf.org).



**Lakes Region Sanitary District**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018**

---

**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 2018 is 12.26% and for calendar year 2017 was 12.34%. For the fiscal year ended April 30, 2018, the District contributed \$61,443 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, 2017, 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	3
Active Plan Members	6
Total	<u>11</u>

***e) Net Pension Liability.***

The District's net pension liability was measured as of December 31, 2017. 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, 2018

---

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, 2017:

- 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 2.50%.
- **Salary Increases** were expected to be 3.39% to 14.25%, 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 2017 valuation according to an experience study from years 2014 to 2016.
- 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-2017 (base year 2015). 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	37 %	8.30 %
International equity	18	8.45
Fixed income	28	3.05
Real estate	9	6.90
Alternative investments	7	4.25 - 12.45
Cash equivalents	1	2.25
	<u>100 %</u>	

Lakes Region Sanitary District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018

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

**g) Single Discount Rate.**

The Discount rate used to measure the total pension liability was 7.50%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

**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, 2016	\$ 1,861,737	\$ 1,425,070	\$ 436,667
Changes for the year:			
Service Cost	64,413	-	64,413
Interest on the Total Pension Liability	140,341	-	140,341
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience of the Total Pension Liability	(133,669)	-	(133,669)
Changes of Assumptions	(57,862)	-	(57,862)
Contributions - Employer	-	68,484	(68,484)
Contributions - Employees	-	24,974	(24,974)
Net Investment Income	-	231,917	(231,917)
Benefit Payments, including Refunds of Employee Contributions	(45,458)	(45,458)	-
Other (Net Transfer)	-	(18,820)	18,820
Net Changes	(32,235)	261,097	(293,332)
Balances at December 31, 2017	\$ 1,829,502	\$ 1,686,167	\$ 143,335

Lakes Region Sanitary District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018

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 7.50%, 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	\$ 327,822	\$ 143,335	\$ (12,008)

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

For the year ended April 30, 2018, the District recognized pension expense of \$48,542. At April 30, 2018, 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	\$ 3,379	\$ 109,933
Net difference between projected and actual earnings on pension plan investments	39,799	99,154
Changes of assumptions	1,064	54,964
Total deferred amounts to be recognized in pension expense in future periods	44,242	264,051
Employer contribution subsequent to the measurement date	16,187	-
Total deferred amounts related to pensions	<u>\$ 60,429</u>	<u>\$ 264,051</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
2018	\$ (42,083)
2019	(42,081)
2020	(60,249)
2021	(61,840)
2022	(13,556)
	<u>\$ (219,809)</u>

**Lakes Region Sanitary District**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended April 30, 2018**

---

**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.

<u><b>Fund</b></u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental:		
General Fund	\$ -	\$ 131,065
Repair and Replacement Fund	141,065	-
Nonmajor Governmental Fund	-	10,000
<b>Total</b>	<u>\$ 141,065</u>	<u>\$ 141,065</u>

**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. Other Post-Employment Benefits**

The District has evaluated its potential other post-employment benefits liability. Former employees who choose to retain their rights to health insurance through the District are required to pay 100% of the current premium. However, there is minimal participation. As the District provides no explicit benefit, and there is minimal participation, there is no material implicit subsidy to calculate in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. Therefore, the District has not recorded a liability as of April 30, 2018.

**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, 2018**

	Original & Final Budget	Actual	Favorable/ (Unfavorable) Variance with Final Budget
<b>Revenues:</b>			
Property Taxes	\$ 1,200,000	\$ 1,226,475	\$ 26,475
Personal Property Replacement Tax	30,000	40,378	10,378
Sewer Connection Fees	156,200	790,346	634,146
User Fees	1,204,300	1,229,158	24,858
Penalty Fees	-	54,171	54,171
Sewer Permit Inspection Fees	1,900	5,024	3,124
Interest	2,000	3,217	1,217
<b>Total Revenues</b>	<u>2,594,400</u>	<u>3,348,769</u>	<u>754,369</u>
<b>Expenditures:</b>			
Current:			
General Government	1,524,700	1,261,151	263,549
Debt Service:			
Principal	874,700	874,620	80
Interest	305,600	370,485	(64,885)
<b>Total Expenditures</b>	<u>2,705,000</u>	<u>2,506,256</u>	<u>198,744</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(110,600)</u>	<u>842,513</u>	<u>953,113</u>
<b>Other Financing Sources (Uses):</b>			
Transfers Out	(1,379,000)	(131,065)	1,247,935
IEPA Loan	1,206,000	-	(1,206,000)
<b>Total Other Financing Uses</b>	<u>(173,000)</u>	<u>(131,065)</u>	<u>41,935</u>
<b>Net Change In Fund Balances</b>	<u>\$ (283,600)</u>	<u>711,448</u>	<u>\$ 995,048</u>
<b>Fund Balances:</b>			
May 1, 2017		<u>2,400,026</u>	
April 30, 2018		<u>\$ 3,111,474</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
2017	\$ 68,485	\$ 68,484	\$ 1	\$ 554,981	12.34%
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	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 64,413	\$ 63,366	\$ 61,183
Interest on the Total Pension Liability	140,341	129,399	118,658
Differences Between Expected and Actual Experience of the Total Pension Liability	(133,669)	(1,724)	7,216
Changes of Assumptions	(57,862)	(12,241)	2,270
Benefit Payments, including Refunds of Employee Contributions	(45,458)	(44,568)	(43,643)
Net Change in Total Pension Liability	(32,235)	134,232	145,684
Total Pension Liability - Beginning	1,861,737	1,727,505	1,581,821
Total Pension Liability - Ending (A)	<u>\$1,829,502</u>	<u>\$1,861,737</u>	<u>\$1,727,505</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 68,484	\$ 68,893	\$ 65,022
Contributions - Employee	24,974	24,802	23,828
Net Investment Income	231,917	90,238	6,301
Benefit Payments, including Refunds of Employee Contributions	(45,458)	(44,568)	(43,643)
Other (Net Transfer)	(18,820)	6,861	(10,323)
Net Change in Plan Fiduciary Net Position	261,097	146,226	41,185
Plan Fiduciary Net Position - Beginning	1,425,070	1,278,844	1,237,659
Plan Fiduciary Net Position - Ending (B)	<u>\$1,686,167</u>	<u>\$1,425,070</u>	<u>\$1,278,844</u>
Net Pension Liability (A) - (B)	<u>\$ 143,335</u>	<u>\$ 436,667</u>	<u>\$ 448,661</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.17%	76.55%	74.03%
Covered Valuation Payroll	\$ 554,981	\$ 551,138	\$ 529,503
Net Pension Liability as a Percentage of Covered Valuation Payroll	25.83%	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.