

SANITARY DISTRICT OF DECATUR
Decatur, Illinois

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**
April 30, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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Independent Auditors' Report

Board of Trustees
Sanitary District of Decatur
Decatur, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Sanitary District of Decatur, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the Sanitary District of Decatur'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanitary District of Decatur as of April 30, 2017, and the change in financial position and cash flows thereof 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 on pages III through VIII, schedule of employer contributions on page 28, schedule of changes in the net position liability and related ratios on page 29, and schedule of funding progress on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2017, on our consideration of the Sanitary District of Decatur's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sanitary District of Decatur's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Champaign, Illinois
August 18, 2017

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sanitary District of Decatur (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ended April 30, 2017. We encourage readers to consider the information in conjunction with the District's financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

BACKGROUND INFORMATION

The Sanitary District of Decatur was organized under the Sanitary District Act of 1917. The District serves a population of roughly 88,500 in an area of approximately 30 square miles. For the years ended April 30, 2017 and 2016, respectively, approximately 31,900 customers were billed a user charge based on their water consumption, solids, ammonia, and oxygen demanding waste; with the exception of a few users which are billed on metered discharge rather than water purchased. Customers are divided into three categories: residential, commercial/domestic, and industrial. While residential customers are the largest group in number, the industrial customers account for about two-thirds of the District's user charges.

In 2017, the number of full time employees increased by two to 55 from the 2016 amount of 53 employees. The District treated a maximum flow of 97.16 million gallons per day in 2017 down from 116.24 million gallons per day in 2016. The average flow was 24.6 million gallons of wastewater a day in 2017 and 31.8 million gallons of wastewater a day in 2016. The plant is designed for 41 million gallons per day during dry weather flow and maximum capacity of 125 million gallons per day during wet weather events.

The District continues to meet U.S. Environmental Protection Agency (USEPA) and Illinois Environmental Protection Agency (IEPA) permit requirements and regulations for all requirements except for the amount of nickel discharged. The District is working with USEPA and IEPA to provide research demonstrating that the amount of nickel discharged does not have a negative impact on the environment and is requesting that the permit limit for nickel should be raised.

FINANCIAL HIGHLIGHTS

- During the fiscal year 2017, the District's net position increased \$4,715,000 representing an increase of 4.8%. During the fiscal year 2016, the District's net position increased \$3,835,511 representing an increase of 4.0%
- During the fiscal year 2017 operating expenses increased by \$170,000 or 1.5%. The majority of this increase was due to additional costs related to biosolids application. This operation is weather dependent with the District usually only able to apply biosolids from October to December. Very good weather allowed for more material than usual to be land applied.
- Nonoperating revenues for fiscal year 2017 were \$1,098,000 higher than fiscal year 2016 because of more grant revenue from the State of Illinois received during fiscal year 2017.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The financial statements also include notes that explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by the private sector companies. These statements offer short and long-term information about the District's overall financial status.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities and deferred inflows, and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The revenue and expenses for each year are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over each year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT

A summary, in thousands, of the District's Statement of Net Position are presented below.

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 52,196	\$ 50,130	\$ 2,066	
Capital Assets	94,402	94,977	(575)	
Deferred Outflows	3,153	2,254	899	
Total Assets	<u>149,751</u>	<u>147,361</u>	<u>2,390</u>	<u>1.6%</u>
Outstanding Debt	36,460	36,911	(451)	
Other Liabilities and Deferred Inflows	9,443	11,317	(1,874)	
Total Liabilities and Deferred Inflows	<u>45,903</u>	<u>48,228</u>	<u>(2,325)</u>	<u>-4.8%</u>
Net Investment in Capital Assets	57,467	58,066	(599)	
Unrestricted	46,381	41,067	5,314	
Total Net Position	<u>\$103,848</u>	<u>\$ 99,133</u>	<u>\$ 4,715</u>	<u>4.8%</u>

For fiscal year 2017 the increase in net position was due to increased assets and reduced liabilities.

Current and other assets increased as the District collected more cash than it spent. During fiscal year 2017, the District made two voluntary payments to IMRF to reduce the pension liability totaling \$2,466,000.

The District completed several large capital asset improvement projects in fiscal year 2016 funded with debt. There was less construction in fiscal year 2017 and less debt issued resulting in a decrease in both categories.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. The table below reflects the past two years changes, in thousands.

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 15,019	\$ 14,702	\$ 317	
Nonoperating Revenues	5,295	4,197	1,098	
Total Revenues	<u>20,314</u>	<u>18,899</u>	<u>1,415</u>	<u>7.5%</u>
Operating Expense	11,346	11,176	170	
Depreciation Expense	3,873	3,670	203	
Nonoperating Expense	380	217	163	
Total Expenses	<u>15,599</u>	<u>15,063</u>	<u>536</u>	<u>3.6%</u>
Changes in Net Position	4,715	3,836	879	
Beginning Net Position,	<u>99,133</u>	<u>95,297</u>	<u>3,836</u>	
Total Net Position	<u>\$103,848</u>	<u>\$ 99,133</u>	<u>\$ 4,715</u>	<u>4.8%</u>

The major factors for fiscal year 2017 which drove these results:

- Two thirds of the increase in operating revenues was the result of increased revenue from user charges and industrial user charges and penalties.
- The increase in operating expenses was mainly due to increased land application costs.
- The net position increase is the result of revenues increasing faster than expenses with nonoperating revenues increasing by over \$1,000,000. This is mainly due to more grant revenue received from the State of Illinois during fiscal year 2017.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of fiscal years 2017 and 2016, the District had \$94,401,601 and \$94,976,764 invested in capital assets (net of depreciation), respectively. As of April 30, 2017, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling \$2,150,364. The District is obligated to pay the cost under these contracts as the work is completed. This amount has increased from the April 30, 2016 amount of \$451,529 because of the Hickory Point Pump Station replacement project.

For fiscal year 2017 the reduction in net capital assets was the result of accumulated depreciation increasing by \$3,350,108 and capital assets only increasing by \$2,774,945.

DEBT ADMINISTRATION

As of April 30, 2017, the District has outstanding loans from the Illinois Revolving Loan in the amount of \$33,564,232 of which the principal and interest due in the upcoming fiscal year are \$1,795,718 and \$435,685, respectively. As of April 30, 2016, the District had outstanding loans from the Illinois Revolving Loan Fund in the amount of \$32,844,608. It is anticipated that the Revolving Loan Fund will continue to be used to fund future projects.

BUDGETARY HIGHLIGHTS

The District adopts an annual combined budget following presentation to the Board of Trustees and public notification and a public hearing. These budgets outline the estimated expenditures and the means of financing them. The District's budget may be revised throughout the year, after Board of Trustees approval.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considers many factors when setting the fiscal year budget, user fees and charges. User charge rates generally reflect inflationary pressure on salaries and related personnel expenses, supplies and utilities. Additional consideration is given to the amount of capital improvements and replacements needed for the current fiscal year.

Domestic, commercial and minor industrial classes generate approximately 30% of the billable flow. The District expects to continue to see a small decrease in this user class. Unemployment continues to be higher in the Decatur, Illinois area than the rest of Illinois and the country but there have been signs of improvement as the unemployment rate decreased from 6.3% in 2016 to 4.9% in 2017. Caterpillar has recently announced that they are moving a production line from Aurora, Illinois to Decatur and will be hiring several hundred employees and Fuyao Glass Illinois has recently made \$200,000,000 of improvements at plant in Mt. Zion, Illinois opening a second production line and adding 250 jobs. As stated in fiscal years 2015 and 2016, there continues to be new development near the Midwest Inland Port continues to expand. So far the development does not appear to be a significant source of new user fees but may help stabilize the declining taxable property values of the District. The District continued to annex properties in this area during the 2017 fiscal year.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

The major industrial user class generates more than 70% of the billable flow. Industrial user fee revenue increased by 0.9% in 2017 but the per unit user charge rate increased by 6.8%. The industrial user fee is lower than the fee increase because the amount of solids which are charged a surcharge was reduced. While this would appear to harm the District financially it has relatively little impact on the District as the surcharge and the cost to dispose of the solids offset each other.

The continuing financial crisis for the State of Illinois is not anticipated to have a direct impact on the District. The District receives less than two percent (2%) of total revenue directly from the state.

Domestic user charge rates are listed below:

	<u>Domestic User Charge Rates</u>				
	<u>FY 16/17</u>	<u>FY 15/16</u>	<u>FY 14/15</u>	<u>FY 13/14</u>	<u>FY 12/13</u>
Cost per 100 cu ft	\$ 1.41	\$ 1.32	\$ 1.22	\$ 1.12	\$ 1.03
Average annual costs per User's household	\$ 136.42	\$ 127.71	\$ 114.17	\$ 110.63	\$ 96.95

The District's long range capital financing plan calls for user fees to be increased by 3 to 7 cents per 100 cubic feet per year through 2027. This includes a projected increase of 4 cents in fiscal year 2018 to keep pace with increasing expenses. Regulatory changes are not factored in to the projections until they are known and the financial impact can be determined.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Kent D. Newton, CPFO, Executive Director / CFO, Sanitary District of Decatur, 501 Dipper Lane, Decatur, Illinois 62522 or by telephone at (217) 442-6931, ext. 213, or by email at kentn@sddcleanwater.org.

SANITARY DISTRICT OF DECATUR
STATEMENT OF NET POSITION
April 30, 2017

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS

Cash and cash equivalents	\$ 12,862,742
Investments	24,743,860
Receivables, net	5,648,296
Prepaid expenses	49,346
Notes receivable - Village of Oreana, current portion	137,803
Notes receivable - Argenta Sanitary District, current portion	<u>103,560</u>
Total current assets	<u>43,545,607</u>

NONCURRENT ASSETS

Other post employment benefits asset	411,252
Capital assets, net of accumulated depreciation	94,401,601
Notes receivable - Village of Oreana, less current portion above	3,322,440
Notes receivable - Argenta Sanitary District, less current portion above	<u>4,917,409</u>
Total noncurrent assets	<u>103,052,702</u>

TOTAL ASSETS

146,598,309

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount related to pension liability	<u>3,152,687</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 149,750,996

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

CURRENT LIABILITIES

Accounts payable, including retainage of \$475,197	\$ 1,475,126
Accrued expenses	608,618
Other unearned income	500,000
Debt certificates, current maturities	1,127,450
Notes payable, current maturities	<u>1,795,718</u>
Total current liabilities	<u>5,506,912</u>

LONG-TERM LIABILITIES

Debt certificates, less current maturities above	1,768,058
Notes payable, less current maturities above	31,768,514
Net pension liability	<u>2,849,743</u>
Total long-term liabilities	<u>36,386,315</u>

Total liabilities

41,893,227

DEFERRED INFLOWS OF RESOURCES

Deferred amount related to pension liability	175,736
Subsequent year's property taxes	<u>3,833,900</u>
Total deferred inflows of resources	<u>4,009,636</u>

NET POSITION

Net investment in capital assets	57,466,664
Unrestricted	<u>46,381,469</u>
Total net position	<u>103,848,133</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

\$ 149,750,996

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

SANITARY DISTRICT OF DECATUR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended April 30, 2017

OPERATING REVENUES

Industrial user charges and penalties	\$ 9,641,947
User charges	4,775,734
Annexations	30,824
Pump stations	107,699
Miscellaneous	<u>462,323</u>

Total operating revenues 15,018,527

OPERATING EXPENSES

Personnel services	4,857,674
Operations and maintenance	4,007,618
Building and grounds	176,488
Contractual/outside services	962,873
Depreciation expense	3,873,261
Bad debt expense	7,963
General and administrative expenses	<u>1,330,887</u>

Total operating expenses 15,216,764

Operating loss (198,237)

NONOPERATING REVENUES (EXPENSES)

Property taxes	3,528,836
Replacement taxes	420,447
State funding	1,254,245
Net investment loss	(18,696)
Interest expense	(362,241)
Gain on disposal of assets	1,394
Other income	<u>89,605</u>

Total nonoperating revenues 4,913,590

CHANGE IN NET POSITION 4,715,353

NET POSITION, BEGINNING OF YEAR 99,132,780

NET POSITION, END OF YEAR \$ 103,848,133

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

SANITARY DISTRICT OF DECATUR
STATEMENT OF CASH FLOWS
Year Ended April 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 15,363,406
Payments to suppliers	(7,445,435)
Payments to employees	<u>(7,185,420)</u>
 Net cash provided by operating activities	 <u>732,551</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Property tax receipts	3,528,836
Replacement tax receipts	<u>418,537</u>
 Net cash provided by noncapital financing activities	 <u>3,947,373</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES

Purchases of capital assets	(3,305,704)
Proceeds from the sale of capital assets	9,000
Principal payments on notes payable and debt certificates	(3,129,321)
State funding	979,245
Proceeds from notes payable and debt certificates	2,953,178
Interest paid on notes payable	(266,417)
Receipts on notes receivable	<u>324,895</u>
 Net cash used in capital and related financing activities	 <u>(2,435,124)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale and maturity of investments	1,595,000
Purchase of investments	(10,613,826)
Interest income received	<u>133,106</u>
 Net cash used in investing activities	 <u>(8,885,720)</u>

Net decrease in cash and cash equivalents	(6,640,920)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>19,503,662</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 12,862,742</u></u>
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RECONCILIATION OF OPERATING LOSS TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating loss	\$ (198,237)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	3,873,261
Bad debt expense	7,963
Effects of changes in operating assets and liabilities:	
Receivables	336,916
Prepaid expenses	(108,290)
Accounts payable	(960,192)
Accrued expenses	21,670
Net pension liability	(1,517,998)
Deferred outflows of resources	(898,278)
Deferred inflows of resources	175,736
	<u>732,551</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>732,551</u>

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

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanitary District of Decatur ("District") was incorporated in 1917 under the provisions of the Sanitary District Act for the purpose of providing wastewater services to a geographic area which includes Decatur and annexed areas surrounding the city. Revenues are generated from wastewater services provided for the constituents of the District, supplemented by real estate taxes, grants, investment earnings, and an allocated portion of State of Illinois replacement taxes.

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. The financial reporting entity consists of (a) the primary government, the Sanitary District of Decatur, which has a separately appointed governing body, is legally separate and fiscally independent of other state and local governments, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is an independent special purpose government in that it has the authority to determine its budget, set rates or levy taxes, and issue bonded debt without approval by another government.

There are no component units of the Sanitary District of Decatur nor is the Sanitary District of Decatur dependent on any other entity.

Financial Statement Presentation and Basis of Accounting

The District operates as a proprietary fund in which the intent of the District is to recover its operating costs, including depreciation, through the use of industrial and residential user charges and tax levies within. Within this fund, the District maintains sub-funds to account for specific resources and expenses. The accounting records of the District are maintained on the cash method of reporting revenue and expenses, and are adjusted at year end to the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The District recognizes user charge revenues when the service is provided. Monthly cycle billing is utilized for industrial users; residential and small commercial customers are billed on quarterly cycles. Unbilled receivables have been estimated at April 30. User charge rates are intended to generate revenues equivalent to estimated operating and replacement costs.

State of Illinois replacement taxes are recognized as revenue when the underlying exchange transaction has occurred.

Permit income and other miscellaneous revenues are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Charges for services are recognized when the service is performed as they are measurable and available.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, all short-term investments with a maturity at the date of purchase of three months or less are considered to be cash equivalents.

Investments

Investments are stated at estimated fair value, and are composed of certificates of deposit and U.S. treasury notes. The types of investments allowed are regulated by Illinois State laws and include municipal bonds, U.S. Government or Illinois obligations, insured deposits or other investments of state or national banks, Federal National Mortgage Association obligations, Public Treasurer's Investment Pool and agreements collateralized by securities or mortgages in an amount at least equal to the market value of the funds deposited.

User Charges Receivable

User charges receivable include both billed and unbilled services for residential and industrial customers in the Decatur area. The receivables are uncollateralized customer obligations which generally require payment within twenty days from the invoice date. Accounts receivable are stated at the invoice amount plus delinquency fees.

Account balances with invoices over twenty days old are considered delinquent and charged a 5% late fee. The District has the right to file a lien against the property. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the District could be adversely affected. All accounts or portions thereof deemed to be uncollectible, or to require an excessive collection cost, are written off to bad debt expense.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are defined by the District as assets with an initial cost equal to or more than \$5,000. Land, buildings, improvements, infrastructure, and machinery and equipment acquired or constructed prior to May 1, 2002 are valued at estimated cost. All other additions since this date are valued at historical cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Land	Non-depreciable
Land improvements	8-50 years
Buildings and improvements	15-50 years
Infrastructure	50 years
Machinery and equipment	5-15 years
Vehicles	8 years

Work in progress includes costs incurred for various additions, improvements and modifications to existing capital assets during the year for which the project was incomplete at year end. Depreciation is not provided until the project is completed and placed in service.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. Interest of \$231,369 was capitalized in fiscal year 2017.

Compensated Absences

District personnel earn vacation time in varying amounts depending on length of service with the District. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with accounting standards, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Deferred Outflows of Resources

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The District has one type of deferred outflow of resources which occurs related to its pension plans. The District has deferred outflows related to pension expense to be recognized in future periods.

Deferred Inflows of Resources

The District reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The District will not recognize the related revenue until a future event occurs. The District has two types of items which occur related to revenue recognition. The District has property tax receivables which are recorded in the current year, but the revenue will be recorded in the subsequent year and for pension differences between expected and actual experience.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Illinois Municipal Retirement Fund (IMRF) and additions to/deductions from IMRF's fiduciary net position have been determined on the same basis as they are reported by IMRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Property Taxes

Property taxes attach as an enforceable lien on all assessable real property located within the boundaries of the District as of each January 1. Taxes are levied on or about May 1 and payable in two installments on or about June 1 and September 1. The County of Macon bills and collects the taxes for the District, and the District receives significant property tax distributions during the months of June, July, and September.

At year end, the District records a receivable for property taxes levied and records deferred inflow for the full amount to match the revenue recording with the period in which the monies will actually be received and used. The receivable and deferral are recorded at 99% of the levy as history has shown that 99% or more of the levy is collected.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District has adopted a formal investment policy approved by the Board of Trustees and Management. The District is authorized by its policy to make deposits or investments in a manner which will provide the maximum security at the highest investment return while meeting the daily cash flow demands of the District and conforming to all state and local statutes and ordinances governing the investment of public funds. The investment policy applies to all financial assets of the District. The District may invest in any type of security allowed by Illinois law, including savings accounts, money market accounts, commercial paper, State Treasurer's Investment Pool (The Illinois Funds), money market mutual funds, repurchase agreement, certificates of deposit and time deposits constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the FDIC; bonds, notes and obligations guaranteed by the full faith and credit of the United States as to principal and interest.

At year end 2017 the carrying value of the District's deposits including cash and money markets were \$12,862,742 and the respective bank balances totaled \$12,800,188.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk - the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy the District will also minimize interest rate risk. The District's formal investment policy states the portfolio shall remain sufficiently liquid to meet all operating costs which may be reasonably anticipated. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). The portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

Credit Risk - the risk that an issuer or other counter party to an investment will not fulfill its obligation. The standard of prudence to be used by the District shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the District's overall portfolio.

The District's investments in U.S. treasury notes of \$17,667,389 at April 30, 2017 were rated Aaa by Moody's Investors Service. At April 30, 2017, the District's investments representing greater than five percent of their portfolio was U.S. Treasury notes, which totaled \$17,667,389.

Custodial Credit Risk - Deposits and Certificates of Deposit – the risk that a government will not be able to cover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party. It is the policy of the District to require that demand and time deposits in excess of FDIC or other federal insurable limits be secured by some form of collateral to protect public deposits in a single situation if it were to default due to poor management or economic factors. As of April 30, 2017, the District's bank deposits were fully insured or collateralized.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of April 30, 2017, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>More Than 5</u>
Certificates of deposit - negotiable	\$ 3,076,471	\$ 986,592	\$ 2,089,879	\$ -
Certificates of deposit - non-negotiable	4,000,000	1,000,000	3,000,000	-
US treasury notes	<u>17,667,389</u>	<u>2,735,894</u>	<u>11,467,837</u>	<u>3,463,658</u>
Total	<u>\$ 24,743,860</u>	<u>\$ 4,722,486</u>	<u>\$ 16,557,716</u>	<u>\$ 3,463,658</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of April 30, 2017:

Level 2 Inputs of \$20,743,860 – including negotiable certificates of deposit and U.S. Treasury securities.

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

Property tax receivable	\$ 3,833,900
Replacement tax receivable	64,646
Interest receivable	120,568
Billed user charges, net allowance of doubtful accounts of \$76,064 in 2017	217,606
Unbilled user charges	203,993
Industrial user charges	<u>1,207,583</u>
Total	<u>\$ 5,648,296</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 4 - MAJOR CUSTOMERS

Accounting principles generally accepted in the United States of America require disclosure of information about current vulnerabilities due to certain concentrations. Approximately 80% of the District's operating revenues for the year ended April 30, 2017, were from two industrial customers. The accounts receivable from these two customers totaled \$1,155,267 at April 30, 2017.

NOTE 5 - CAPITAL ASSETS

Following is a summary of changes in capital assets and related depreciation for fiscal year ended April 30, 2017.

	<u>Balance</u> <u>April 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 2,935,993	\$ -	\$ -	\$ 2,935,993
Work in progress	<u>17,581,907</u>	<u>2,676,904</u>	<u>10,295,487</u>	<u>9,963,324</u>
Total capital assets not being depreciated	<u>20,517,900</u>	<u>\$ 2,676,904</u>	<u>\$ 10,295,487</u>	<u>12,899,317</u>
Capital assets being depreciated:				
Buildings and improvements	65,443,531	5,250,775	-	70,694,306
Infrastructure	73,533,078	3,590,300	-	77,123,378
Machinery and equipment	61,473,491	1,951,054	532,576	62,891,969
Vehicles	2,126,090	133,975	-	2,260,065
Land improvements	<u>5,518,242</u>	<u>-</u>	<u>-</u>	<u>5,518,242</u>
Total capital assets being depreciated	<u>208,094,432</u>	<u>\$ 10,926,104</u>	<u>\$ 532,576</u>	<u>218,487,960</u>
Less accumulated depreciation	<u>133,635,568</u>	<u>\$ 3,873,261</u>	<u>\$ 523,153</u>	<u>136,985,676</u>
Capital assets, net	<u>\$ 94,976,764</u>			<u>\$ 94,401,601</u>

Work in progress at April 30, 2017 consists of the following projects:

Biogas Co-Generation Replacement Project	\$ 150,900
Spring Creek Pipe Bridge	49,310
Hickory Point Pump Station Replacement	1,239,691
Digester Facility Mixers	8,381,389
West Headworks Improvements	<u>142,034</u>
Total	<u>\$ 9,963,324</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 6 - NOTES RECEIVABLE

Village of Oreana

The District financed the construction of a joint wastewater system for the Village of Oreana (Village). The Village's original cost of the construction was \$5,077,771, less \$1,164,431 of loan forgiveness related to a grant received by the District, for a net amount due from the Village of \$3,913,340. In addition, related to this project, the Village owes the District \$195,007 in annexation fees. The agreement calls for the above items to be repaid to the District over a 30 year period, at a 0% interest rate. As of April 30, 2017, the Village owes \$3,460,243. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 137,803	\$ -	\$ 137,803
2019	137,803	-	137,803
2020	137,803	-	137,803
2021	137,803	-	137,803
2022	137,803	-	137,803
2023-2027	689,017	-	689,017
2028-2032	689,017	-	689,017
2033-2037	689,017	-	689,017
2038-2042	<u>704,177</u>	<u>-</u>	<u>704,177</u>
Total	<u>\$ 3,460,243</u>	<u>\$ -</u>	<u>\$ 3,460,243</u>

Argenta Sanitary District

The District financed the construction of a joint wastewater system for the Argenta Sanitary District (ASD). ASD's cost of the construction was \$6,568,822, less \$1,451,797 of loan forgiveness related to a grant received by the District, for a net amount due from ASD of \$5,117,025. In addition, related to this project, the ASD owes the District \$266,111 in annexation fees. The agreement calls for the above items to be repaid to the District over a 30 year period, at a 1.25% interest rate. As of April 30, 2017, the Argenta Sanitary District owes \$5,020,969. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 103,560	\$ 62,447	\$ 166,007
2019	109,854	61,133	170,987
2020	116,376	59,740	176,116
2021	123,136	58,264	181,400
2022	130,138	56,704	186,842
2023-2027	764,825	209,393	974,218
2028-2032	980,015	203,212	1,183,227
2033-2037	1,124,637	137,047	1,261,684
2038-2042	1,196,937	64,747	1,261,684
2043-2044	<u>371,491</u>	<u>4,640</u>	<u>376,131</u>
Total	<u>\$ 5,020,969</u>	<u>\$ 917,327</u>	<u>\$ 5,938,296</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 7 - LONG-TERM DEBT

Notes Payable

The following is a summary of changes in notes payable for the year ended April 30, 2017:

	Principal Outstanding April 30, 2016	Issuances	Retirements	Principal Outstanding April 30, 2017	Current Portion
Note payable to the IEPA, for the Hickory Point West Interceptor project; interest at 2.625%; 38.71% payable to Village of Forsyth; due in semi-annual installments in February and August of each year through February 2020.	\$ 124,786	\$ -	\$ 109,572	\$ 15,214	\$ 15,214
Note payable to the IEPA, for the Ultra Violet project; interest at 2.535%; due in semi-annual installments in June and December of each year through June 2020.	557,173	-	118,416	438,757	121,437
Note payable to the IEPA, for the 2002 Rehabilitation project; interest at 2.500%; due in semi-annual installments in July and January of each year through January 2024.	253,596	-	29,428	224,168	30,168
Note payable to the IEPA, for the Damon to Monroe project; interest at 2.500%; due in semi-annual installments in January and July of each year through July 2024.	1,398,481	-	150,700	1,247,781	154,491
Note payable to the IEPA, for the Phase 2 – WWTP project; interest at 2.570%; due in semi-annual installments in January and July of each year through January 2024.	936,674	-	107,661	829,013	110,445

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

	Principal Outstanding April 30, 2016	Issuances	Retirements	Principal Outstanding April 30, 2017	Current Portion
Note payable to the IEPA, for the Odor Control project; interest at 2.500%; due in semi-annual installments in April and October of each year through January 2027.	\$ 413,228	\$ -	\$ 33,076	\$ 380,152	\$ 33,908
Note payable to the IEPA, for the 2004 Rehabilitation project; interest at 2.500%; due in semi-annual installments in June and December of each year through December 2025.	876,947	-	80,074	796,873	82,089
Note payable to the IEPA, for the Wyckles Forcemain project I; interest at 0.000%; due in semi-annual installments in July and January of each year through 2031.	609,555	-	42,038	567,517	42,038
Note payable to the IEPA, for the Oreana Collection System project; interest at 0.000%; due in semi-annual installments in March and September of each year through 2031.	3,793,312	-	252,887	3,540,425	252,887
Note payable to the IEPA, for the Wyckles Phase II project; interest at 0.000%; due in semi-annual installments in November and May of each year through 2030.	590,081	-	40,695	549,386	40,695

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

	Principal Outstanding April 30, 2016	Issuances	Retirements	Principal Outstanding April 30, 2017	Current Portion
Note payable to the IEPA, for the Argenta Collection System project; interest at 0.000%; due in semi-annual installments in July and January of each year through 2032.	\$ 4,777,502	\$ 266	\$ 271,519	\$ 4,506,249	\$ 137,034
Note payable to the IEPA, for the Stevens Creek Interceptor Rehab project; interest at 1.2500%; due in semi-annual installments in March and September of each year through 2031.	1,305,852	-	74,211	1,231,641	75,142
Note payable to the IEPA, for the 2011 Trestle Rehab project; interest at 1.2500%; due in semi-annual installments in January and July of each year through 2032.	2,001,242	-	109,929	1,891,313	111,307
Note payable to the IEPA, for the Primary Digester Upgrade; interest at 1.9300%; due in semi-annual installments in November and May each year through 2035.	6,729,720	553,861	299,437	6,984,144	157,963
Note payable to the IEPA, for the Sludge Thickening System; interest at 1.9950%; due in semi-annual installments in November and May each year through 2036.	3,643,143	1,527,514	357,902	4,812,755	203,830
Note payable to the IEPA, for the East Side Separation Rehabilitation; interest at 2.2100%; due in semi-annual installments each year through September 2035.	2,146,713	-	89,153	2,057,560	91,134
Note payable to the IEPA, for the Odor Control Project – Phase II; interest at 2.2100%; due in semi-annual installments each year through February 2036.	2,686,603	871,536	66,855	3,491,284	135,936
Totals	\$ 32,844,608	\$ 2,953,177	\$ 2,233,553	\$ 33,564,232	\$ 1,795,718

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended April 30			
2018	\$ 1,795,718	\$ 435,685	\$ 2,231,403
2019	2,114,934	502,023	2,616,957
2020	2,150,320	466,637	2,616,957
2021	2,120,555	430,505	2,551,060
2022	2,089,037	396,126	2,485,163
2023-2027	9,838,287	1,483,012	11,321,299
2028-2032	8,768,694	799,839	9,568,533
2033-2036	<u>4,686,687</u>	<u>190,471</u>	<u>4,877,158</u>
Total	<u>\$ 33,564,232</u>	<u>\$ 4,704,298</u>	<u>\$ 38,268,530</u>

Debt Certificates

On June 26, 2013, the District issued debt certificates for \$5,140,000. The proceeds of the debt certificates were used to pay off four IEPA loans: Stevens Creek Supplemental Interceptor, McKinley Avenue Supplemental Interceptor, 1995 Sewer Rehabilitation Project, and the Northeast Supplemental Sewer Project. Principal and interest are due June 26 and December 26 at an interest rate of 2.00%. At April 30, 2017, there was principal outstanding in the amount of \$1,740,294.

On April 24, 2015, the District issued debt certificates for \$2,000,000, however, only \$108,500 of that was actually disbursed to the District in fiscal year 2015. The \$2,000,000 was reduced to \$500,000 during fiscal year 2016. Principal and interest are due April 24 and October 24 at an interest rate of 2.55%. At April 30, 2017, there was principal outstanding in the amount of \$1,155,214.

	<u>Balance April 30, 2016</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance April 30, 2017</u>	<u>Current</u>
General Obligation Debt Certificates, Series 2013	\$ 2,679,751	\$ -	\$ 939,457	\$ 1,740,294	\$ 890,203
General Obligation Debt Certificates, Series 2015	<u>1,386,524</u>	<u>-</u>	<u>231,310</u>	<u>1,155,214</u>	<u>237,247</u>
Total	<u>\$ 4,066,275</u>	<u>\$ -</u>	<u>\$ 1,170,767</u>	<u>\$ 2,895,508</u>	<u>\$ 1,127,450</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for debt certificates are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended April 30			
2018	\$ 1,127,450	\$ 54,938	\$ 1,182,388
2019	553,756	34,225	587,981
2020	427,445	24,775	452,220
2021	295,442	15,808	311,250
2022	209,320	9,236	218,556
2023-2027	213,721	26,267	239,988
2028-2029	<u>68,374</u>	<u>2,080</u>	<u>70,454</u>
Total	<u>\$ 2,895,508</u>	<u>\$ 167,329</u>	<u>\$ 3,062,837</u>

NOTE 8 - PENSION PLAN

IMRF 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's 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.

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date). The District only participates in the Regular Plan.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

All three IMRF benefit plans have two tiers. 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 ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten 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.

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	87
Inactive Plan Members entitled to but not yet receiving benefits	9
Active Plan Members	<u>53</u>
Total	<u><u>149</u></u>

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 2016 was 14.39%. For the fiscal year 2017, the District's required contribution was \$485,153 to the plan and the District contributed \$2,951,153. 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.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

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.

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:

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Portfolio Target Percentage</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	38.0%	6.85%
International Equity	17.0%	6.75%
Fixed Income	27.0%	3.00%
Real Estate	8.0%	5.75%
Alternative Investments	9.0%	2.65-7.35%
Cash Equivalents	<u>1.0%</u>	2.25%
Total	<u>100%</u>	

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%.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2015	<u>\$ 32,237,617</u>	<u>\$ 27,869,876</u>	<u>\$4,367,741</u>
Changes for the year:			
Service Cost	360,112	-	360,112
Interest on the Total Pension Liability	2,350,315	-	2,350,315
Changes of Benefit Terms	-	-	-
Differences Between Expected and Experience of the Total Pension	(130,108)	-	(130,108)
Changes of Assumptions	(109,165)	-	(109,165)
Contributions - Employer	-	1,710,406	(1,710,406)
Contributions - Employees	-	153,085	(153,085)
Net Investment Income	-	2,154,331	(2,154,331)
Benefit Payments, including Refunds of Employee Contributions	(1,908,569)	(1,908,569)	-
Other (Net Transfer)	-	(28,670)	28,670
Net Changes	<u>562,585</u>	<u>2,080,583</u>	<u>(1,517,998)</u>
Balances at December 31, 2016	<u>\$ 32,800,202</u>	<u>\$ 29,950,459</u>	<u>\$2,849,743</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following 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% Lower (6.50%)	Current Discount (7.50%)	1% Higher (8.50%)
Net Pension Liability	\$ 6,744,255	\$ 2,849,743	\$ (401,068)

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

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

For the calendar year ended December 31, 2016, the District recognized pension expense of \$782,284. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Amounts Related to Pensions</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<i>Deferred Amounts to be Recognized in Pension Expense in Future Periods</i>		
Differences between expected and actual	\$ 116,880	\$ 95,559
Changes of assumptions	17,071	80,177
Net difference between projected and actual earnings on pension plan investments	<u>848,340</u>	<u>-</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	982,291	175,736
<i>Pension Contributions made Subsequent to the Measurement Date</i>	<u>2,170,396</u>	<u>-</u>
Total Deferred Amounts Related to Pensions	<u>\$ 3,152,687</u>	<u>\$ 175,736</u>

\$2,170,396 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2018.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 8 - PENSION PLAN (CONTINUED)

**Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources
Related to Pensions (Continued)**

The net amount reported as deferred outflows of resources and deferred inflows of resources related to pensions, prior to contributions subsequent to measurement date, will be recognized in pension expense in future periods as follows:

<u>Year Ending December 31</u>	<u>Net Deferred of Resources</u>
2017	\$ 297,034
2018	282,546
2019	237,688
2020	(10,713)
Thereafter	-
Total	<u>\$ 806,555</u>

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to providing the pension benefits described in Note 8, the District provides other postemployment health care benefits (OPEB) for retired employees through a single employer defined benefit plan (Retiree Healthcare Program). This plan has three components: Retirement Health Savings Program, Health Premium Supplement Program and Deductible Reimbursement Program. Even though Retirement Health Savings Program has defined contribution characteristics, plans with both defined contribution and defined benefit characteristics follow defined benefit plan requirements. Furthermore, the Retirement Health Savings Accounts are not considered OPEB plan assets for purposes of this report. These account balances do offset the District's liabilities under the Health Premium Supplement Program. The calculations of the liabilities associated with the Health Premium Supplement Program recognize this offset. The District has the authority to establish and amend the benefit provisions of this plan. The plan does not issue a separate report.

Monthly Retiree Contributions

Retirees make no contributions toward the cost of the District postemployment reimbursement plan.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Employer Contributions

The District's postemployment reimbursement plan is funded on a pay-as-you-go basis. For each month of service (but not beginning prior to May 1, 1998), \$75 is deposited into an employee's Retirement Health Savings Account. Additionally, 1-1/4% of an employee's salary (up to a maximum salary base of \$100,000) is also deposited into an employee's Retirement Health Savings Account.

After retirement, if the Retirement Health Savings Account is depleted, the District will reimburse the retiree for the medical plan premium, up to a maximum amount equal to the premium that was in effect at the time of retirement.

The District also contributes an amount to reimburse each participating retiree for the portion of the annual deductible that is incurred in excess of \$500.

Annual OPEB Cost and Net OPEB Asset

The Annual OPEB Cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The net OPEB asset was calculated as follows:

Annual required contribution	\$ 136,797
Interest on net OPEB asset	(12,095)
Adjustment to annual required contribution	<u>10,079</u>
Annual OPEB cost	134,781
Contributions made by the District	<u>(243,657)</u>
Increase in net OPEB asset	(108,876)
Net OPEB asset, beginning of year	<u>(302,376)</u>
Net OPEB asset, end of year	<u>\$ (411,252)</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The District's annual OPEB cost, percentage of OPEB cost contributed, and net post-employment benefit obligation (asset) for the plan for the following fiscal years ended April 30, are as follows:

Fiscal Year	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset
2017	\$134,781	180.8%	(\$411,252)
2016	129,851	138.2%	(302,376)
2015	130,852	128.5%	(252,802)

Schedule of Employer Contributions

Actuarial valuation date	May 1, 2015
Annual required contribution (ARC)	\$ 136,797
Estimated contributions made by the District	\$ 243,657
Percentage of ARC contributed	178.1%

Funded Status and Funding Progress

Actuarial valuation date	May 1, 2015
Actuarial accrued liability (AAL)	\$2,083,452
Unfunded actuarial accrued liability (UAAL)	\$2,083,452
Funded ratio (actuarial value of plan assets/AAL)	0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

In the May 1, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included an investment return rate of 4%, salary increases comprised of a wage inflation component of 4%, and a healthcare cost trend rate of 3.2%. The calculations assume a level dollar open amortization period and amortization factor of 30.000.

There are no assets that have been set aside to fund the liabilities for this plan.

There was a significant increase in the actuarial accrued liability and unfunded actuarial accrued liability from the last actuarial calculation completed as of May 1, 2013. This increase was due to a few key factors, which included an increase in the number of retirees (17 to 27), and some changes in assumptions including healthcare cost trend rate (5% to 7.8%), spousal coverage was included, and liability for post-65 coverage was included.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

At April 30, 2017, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$2,150,364, which were at varying stages of completion. The District is obligated to pay the costs under these contracts as the work is completed.

Subsequent to year end, the District entered into various contracts for construction projects and engineering projects with commitments totaling approximately \$1,420,339. The District is obligated to pay the costs under these contracts as the work is completed.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF EMPLOYER CONTRIBUTIONS
ILLINOIS MUNICIPAL RETIREMENT FUND
(Unaudited)**

<u>Fiscal Year Ended April 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Valuation Payroll</u>	<u>Actual Contribution as a Percentage of Covered Valuation Payroll</u>
2017	\$ 485,153	\$ 2,951,153	\$ (2,466,000)	\$ 3,414,684	86.43%
2016	\$ 542,387	\$ 1,492,387	\$ (950,000)	\$ 3,549,418	42.05%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

See accompanying notes to required supplementary information.

SANITARY DISTRICT OF DECATUR
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
ILLINOIS MUNICIPAL RETIREMENT PLAN
(Unaudited)

Calendar Year Ended December 31,	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service Cost	\$ 360,112	\$ 408,884
Interest	2,350,315	2,272,329
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	(130,108)	246,402
Changes of Assumptions	(109,165)	35,988
Benefit Payments, Including Refunds of Employee Contributions	<u>(1,908,569)</u>	<u>(1,800,538)</u>
Net Change in Total Pension Liability	562,585	1,163,065
Total Pension Liability - Beginning	<u>32,237,617</u>	<u>31,074,552</u>
Total Pension Liability - Ending	<u>32,800,202</u>	<u>32,237,617</u>
 Plan Fiduciary Net Position		
Contributions - Employer	1,710,406	878,601
Contributions - Employee	153,085	165,740
Net Investment Income	2,154,331	574,993
Benefit Payments, Including Refunds of Employee Contributions	(1,908,569)	(1,800,538)
Other	<u>(28,670)</u>	<u>(80,906)</u>
Net Change in Plan Fiduciary Net Position	2,080,583	(262,110)
Plan Fiduciary Net Position - Beginning	<u>27,869,876</u>	<u>28,131,986</u>
Plan Fiduciary Net Position - Ending	<u>29,950,459</u>	<u>27,869,876</u>
 Net Pension Liability - Ending	 <u>\$ 2,849,743</u>	 <u>\$ 4,367,741</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 91.31%	 86.45%
 Covered Employee Payroll	 \$ 3,401,867	 \$ 3,632,546
 District's Net Pension Liability as a Percentage of Covered Payroll	 83.77%	 120.24%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

See accompanying notes to required supplementary information.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
05/01/15	\$ -	\$ 2,083,452*	\$2,083,452	0.00%	\$3,338,130	62.4%
05/01/13	-	1,226,402	1,226,402	0.00%	3,477,755	35.3%
05/01/11	-	1,371,842	1,371,842	0.00%	3,595,230	38.2%

*There was a significant increase in the actuarial accrued liability and unfunded actuarial accrued liability from the last actuarial calculation completed as of May 1, 2013. This increase was due to a few key factors, which included an increase in the number of retirees (17 to 27), and some changes in assumptions including healthcare cost trend rate (5% to 7.8%), spousal coverage was included, and liability for post-65 coverage was included.

See accompanying notes to required supplementary information.

**SANITARY DISTRICT OF DECATUR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Note 1:

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2016 Contribution Rate*

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine 2016 Contribution Rates:

<i>Actuarial Cost Method:</i>	Aggregate entry age normal
<i>Amortization Method:</i>	Level percentage of payroll, closed
<i>Remaining Amortization Period:</i>	Non-Taxing bodies: 10-year rolling period. <i>Taxing bodies (Regular, SLEP and ECO groups): 27-year closed period until remaining period reaches 15 years (then 15-year rolling period).</i> <i>Early Retirement Incentive Plan liabilities: a period up to 10 years selected by the Employer upon adoption of ERI. SLEP supplemental liabilities attributable to Public Act 94-712 were financed over 22 years for most employers (two employers were financed over 31 years).</i>
<i>Asset Valuation Method:</i>	5-year smoothed market; 20% corridor
<i>Wage Growth:</i>	3.50%
<i>Price Inflation:</i>	2.75%, approximate; No explicit price inflation assumption is used in this valuation.
<i>Salary Increases:</i>	3.75% to 14.5%, including inflation
<i>Investment Rate of Return:</i>	7.50%
<i>Retirement Age:</i>	Experience-based table of rates that are specific to the type of eligibility condition; last updated for the 2014 valuation pursuant to an experience study of the period 2011-2013.

**SANITARY DISTRICT OF DECATUR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Mortality:

For non-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 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.

Other Information:

Notes:

There were no benefit changes during the year.

* Based on Valuation Assumptions used in the December 31, 2014, actuarial valuation; note two year lag between valuation and rate setting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Sanitary District of Decatur
Decatur, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sanitary District of Decatur, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise Sanitary District of Decatur's basic financial statements, and have issued our report thereon dated August 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sanitary District of Decatur's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sanitary District of Decatur's internal control. Accordingly, we do not express an opinion on the effectiveness of Sanitary District of Decatur's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we did identify a certain deficiency in internal control that we consider to be a material weakness (Finding 2017-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sanitary District of Decatur's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sanitary District of Decatur's Response to Finding

Sanitary District of Decatur's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Sanitary District of Decatur's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Champaign, Illinois
August 18, 2017

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended April 30, 2017**

FINDING NO. 2017-001 – Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP, including all adjustments required to convert the cash basis records to accrual basis.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements, including footnote disclosures and accrual adjustments.

Cause: The District does not have the necessary staff to prepare the financial statements.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding

The District will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and GAAP adjustments and will review and approve these prior to the issuance of the annual financial statements.

Official Responsible for Ensuring CAP:

The governing board is responsible for ensuring the corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP is ongoing.

Plan to Monitor Completion of CAP:

The governing board will monitor this corrective action plan.