

SANITARY DISTRICT OF DECATUR
Decatur, Illinois

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
April 30, 2015 and 2014



CliftonLarsonAllen

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	I
MANAGEMENT'S DISCUSSION AND ANALYSIS	III
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	1
Statements of Revenues, Expenses, and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
REQUIRED SUPPLEMENTARY INFORMATION	29
Schedules of Funding Progress	30
SINGLE AUDIT SECTION	31
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 <i>Government Auditing Standards</i>	32
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	34
Schedule of Expenditures of Federal Awards	36
Notes to Schedule of Expenditures of Federal Awards	37
Schedule of Findings and Questioned Costs	38
Schedule of Status of Prior Year Findings	41

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, 2015 and 2014, 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, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years 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 and schedules 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sanitary District of Decatur's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2015, 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
September 22, 2015

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 years ended April 30, 2015 and 2014. 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. Currently, the District serves a population of roughly 88,500 in an area of approximately 30 square miles. For the years ended April 30, 2015 and 2014, respectively, approximately 31,850 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. A staff of 54 employees in 2015 and 2014 treated a maximum flow of 79.0 million gallons per day in 2015 and 116.6 million gallons per day in 2014; an average of 27.3 million gallons of wastewater a day in 2015 and 26.4 million gallons of wastewater a day in 2014. 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 and Illinois Environmental Protection Agency 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 2015, the District's net position increased \$3,066,000 representing an increase of 3.23%. During the fiscal year 2014, the District's net position decreased \$120,851 representing a decrease of .13%.
- During the fiscal year 2015 expenses decreased by \$2,464,000. This was the result of lower personnel cost and lower than expected biosolids disposal due to the fall weather.
- Operating Revenues for fiscal Year 2015 were \$866,000 higher than fiscal year 2014 because of higher user fee and industrial user revenue.

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, 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 Change 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 Statements of Net Position are presented below.

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other							
Assets	\$ 47,537	\$ 44,805	\$ 2,732		\$ 44,071	\$ 734	
Capital Assets	84,669	82,859	1,810		81,791	1,068	
Total Assets	<u>132,206</u>	<u>127,664</u>	<u>4,542</u>	<u>3.56%</u>	<u>125,862</u>	<u>1,802</u>	<u>1.43%</u>
Outstanding Debt	27,765	25,313	2,452		25,227	(856)	
Other Liabilities and Deferred Inflows	<u>6,386</u>	<u>7,362</u>	<u>(976)</u>		<u>5,525</u>	<u>2,779</u>	
Total Liabilities and Deferred Inflows	<u>34,151</u>	<u>32,675</u>	<u>1,476</u>	<u>4.52%</u>	<u>30,752</u>	<u>1,923</u>	<u>6.25%</u>
Net Investment in							
Capital Assets	60,662	62,233	(1,571)		57,009	5,224	
Unrestricted	<u>37,393</u>	<u>32,756</u>	<u>4,637</u>		<u>38,101</u>	<u>(5,345)</u>	
Total Net Position	<u>\$ 98,055</u>	<u>\$ 94,989</u>	<u>\$ 3,066</u>	<u>3.23%</u>	<u>\$ 95,110</u>	<u>\$ (121)</u>	<u>(.13%)</u>

For FY 2015 the increase in net position was due to increased assets that resulted from payments from the Clean Water Revolving Loan fund for expenses occurred in the prior fiscal year.

Long-term Debt was used for improving capital assets resulting in an increase in both categories.

The net position increased by \$3.0 million, as Total Assets increased more than debt.

**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 Revenue, Expenses, and Change 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 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 13,591	\$ 12,725	\$ 866		\$ 12,482	\$ 243	
Nonoperating Revenues	4,142	4,286	(144)		5,367	(1,081)	
Total Revenues	<u>17,733</u>	<u>17,011</u>	<u>722</u>	<u>4.24%</u>	<u>17,849</u>	<u>(838)</u>	<u>4.69%</u>
Operating Expense	10,644	12,926	(2,282)		11,401	1,525	
Depreciation Expense	3,670	3,592	78		3,361	231	
Nonoperating Expense	354	614	(260)		1,991	(1,377)	
Total Expenses	<u>14,668</u>	<u>17,132</u>	<u>(2,464)</u>	<u>(14.38%)</u>	<u>16,753</u>	<u>379</u>	<u>2.26%</u>
Changes in Net Position	3,066	(121)	3,187		1,096	(1,217)	
Beginning Net Position	<u>94,989</u>	<u>95,110</u>	<u>(121)</u>		<u>94,014</u>	<u>1,096</u>	
Total Net Position	<u>\$ 98,055</u>	<u>\$ 94,989</u>	<u>\$ 3,066</u>	<u>3.23%</u>	<u>\$ 95,110</u>	<u>\$ (121)</u>	<u>(.13%)</u>

The major factors for FY 2015 which drove these results:

- The increase in operating revenues was mainly due to increased revenue from user charges and industrial user charges and penalties.
- The decrease in operating expenses was due to a decrease in personnel services related to an early retirement incentive offer in FY 2014 and reduced operations and maintenance expenses.
- Non-operating expense decrease was primarily due to the sale of an investment recorded in FY 2014 as a non-operating expense.

The major factors for FY 2014 which drove these results:

- The increase in operating revenues was mainly due to an increase in industrial user charges and penalties and user charge revenue.
- Operating expenses increase was due to an increase in personnel services related to the final payment for an early retirement incentive offer and operations and maintenance expenses for asset repairs and replacement.
- Non-operating expense decrease was primarily due to recording the contribution to the Argenta Sanitary District and Village of Oreana related pass-through grants in FY 2013.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of fiscal years 2015 and 2014, the District had \$84,669,450 and \$82,859,215 invested in capital assets (net of depreciation), respectively. As of April 30, 2015, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$15,500,000 which were at varying stages of completion. The District is obligated to pay the cost under these contracts as the work is completed.

For FY 2015 the increase in capital assets included the completion of various replacements of vehicles, machinery and equipment including two buildings for the disinfection process and the completion of the interceptor adjacent to the spring creek bridge.

DEBT ADMINISTRATION

As of April 30, 2015, the District has outstanding loans from the Illinois Revolving Loan in the amount of \$24,007,531 of which the principal and interest due in the upcoming fiscal year are \$1,379,444 and \$229,970, respectively. As of April 30, 2014, the District had outstanding loans from the Illinois Revolving Loan Fund in the amount of \$20,625,831. It is anticipated that the Revolving Loan Fund will 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 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 given the current economical conditions including high unemployment and jobs being transferred to other locations. Unemployment continues to be higher in the Decatur area than the rest of Illinois and the country. There has been some new development near the area of the new intermodal facility with more development anticipated as the inland port continues to be developed. 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 major industrial user class generates more than 70% of the billable flow. The amount of billable flow did not increase as expected as the drought conditions in the area subsided. It appears that the industrial customers have made temporary water reduction strategies permanent.

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

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

The financial crisis for the State of Illinois is not anticipated to have a major 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 14/15</u>	<u>FY 13/14</u>	<u>FY 12/13</u>	<u>FY 11/12</u>
Cost per 100 cubic feet	\$ 1.22	\$ 1.12	\$ 1.03	\$ 0.94
Average annual costs per User's household	\$ 114.17	\$ 110.63	\$ 96.95	\$ 89.27

During the 2011 budget process the District developed a long range capital financing plan that calls for user fees to be increased by 10 cents per 100 cubic feet per year through 2016. The additional revenue is being used as a dedicated funding source for the renewal of existing capital assets and fund debt service payments required for additional capital improvements.

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, Director of Administration, 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
STATEMENTS OF NET POSITION
April 30, 2015 and 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,752,205	\$ 16,919,108
Investments	15,583,560	12,484,281
Receivables, net	5,481,356	5,650,101
Prepaid expenses	44,322	162,177
Pension prepaid contribution	407,257	-
Other post employment benefits asset	252,802	215,491
Due from City of Decatur/Village of Forsyth, current portion	-	95,814
Notes receivable - Village of Oreana, current portion	206,074	137,803
Notes receivable - Argenta Sanitary District, current portion	91,629	224,922
Total current assets	<u>38,819,205</u>	<u>35,889,697</u>
CAPITAL ASSETS , net of accumulated depreciation	<u>84,669,450</u>	<u>82,859,215</u>
LONG-TERM RECEIVABLES		
Notes receivable - Village of Oreana, less current portion above	3,598,674	3,735,847
Notes receivable - Argenta Sanitary District, less current portion above	5,118,457	5,178,887
Total long-term receivables	<u>8,717,131</u>	<u>8,914,734</u>
TOTAL ASSETS	<u>\$ 132,205,786</u>	<u>\$ 127,663,646</u>

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

CURRENT LIABILITIES		
Accounts payable, including retainage of \$615,367 and \$423,015 respectively	\$ 1,766,130	\$ 2,618,691
Accrued expenses	595,789	846,133
Other unearned income	500,000	500,000
Debt certificates, current maturities	1,077,588	942,084
Notes payable, current maturities	1,379,444	1,330,800
Notes payable, City of Decatur/Village of Forsyth, current maturities	-	95,814
Total current liabilities	<u>5,318,951</u>	<u>6,333,522</u>
LONG-TERM LIABILITIES		
Debt certificates, less current maturities above	2,679,751	3,648,839
Notes payable, less current maturities above	22,628,087	19,295,031
Total long-term liabilities	<u>25,307,838</u>	<u>22,943,870</u>
Total liabilities	<u>30,626,789</u>	<u>29,277,392</u>
DEFERRED INFLOWS OF RESOURCES		
Subsequent year's property taxes	<u>3,524,337</u>	<u>3,397,174</u>
NET POSITION		
Net investment in capital assets	60,661,919	62,233,384
Unrestricted	37,392,741	32,755,696
Total net position	<u>98,054,660</u>	<u>94,989,080</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 132,205,786</u>	<u>\$ 127,663,646</u>

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

SANITARY DISTRICT OF DECATUR
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended April 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Industrial user charges and penalties	\$ 8,777,119	\$ 8,518,478
User charges	4,235,981	3,914,582
Annexations	26,306	39,015
Pump stations	98,870	97,105
Miscellaneous	<u>452,828</u>	<u>155,481</u>
 Total operating revenues	 <u>13,591,104</u>	 <u>12,724,661</u>
OPERATING EXPENSES		
Personnel services	5,145,480	6,133,998
Operations and maintenance	3,716,914	4,558,909
Building and grounds	165,614	216,594
Contractual/outside services	342,621	729,758
Depreciation expense	3,670,023	3,592,083
General and administrative expenses	<u>1,273,284</u>	<u>1,287,113</u>
 Total operating expenses	 <u>14,313,936</u>	 <u>16,518,455</u>
 Operating loss	 <u>(722,832)</u>	 <u>(3,793,794)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	3,388,818	3,248,605
Replacement taxes	411,131	392,794
State funding	47,052	413,470
Net investment income (loss)	104,495	(162,157)
Interest expense	(336,952)	(407,876)
Gain on disposal of assets	-	103,000
Bad debt expense	-	(21,492)
Debt issuance costs	(17,500)	(21,425)
Other income	<u>191,368</u>	<u>128,024</u>
 Total nonoperating revenues	 <u>3,788,412</u>	 <u>3,672,943</u>
 CHANGE IN NET POSITION	 3,065,580	 (120,851)
 NET POSITION, BEGINNING OF YEAR	 <u>94,989,080</u>	 <u>95,109,931</u>
 NET POSITION, END OF YEAR	 <u>\$ 98,054,660</u>	 <u>\$ 94,989,080</u>

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

SANITARY DISTRICT OF DECATUR
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 13,868,726	\$ 12,984,935
Payments to suppliers	(6,233,139)	(5,424,595)
Payments to employees	<u>(5,848,461)</u>	<u>(5,887,353)</u>
Net cash provided by operating activities	<u>1,787,126</u>	<u>1,672,987</u>
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	3,388,818	3,248,605
Replacement tax receipts	<u>393,277</u>	<u>403,079</u>
Net cash provided by noncapital financing activities	<u>3,782,095</u>	<u>3,651,684</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(5,480,258)	(4,660,048)
Principal payments on notes payable and debt certificates	(2,397,501)	(6,048,746)
State funding	47,052	413,470
Proceeds from notes payable and debt certificates	4,945,617	6,483,242
Interest paid on notes payable	(328,882)	(398,762)
Receipts on notes receivable	<u>453,993</u>	<u>388,477</u>
Net cash used in capital and related financing activities	<u>(2,759,979)</u>	<u>(3,822,367)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and maturity of investments	1,777,215	5,674,775
Purchase of investments	(4,875,736)	(1,586,824)
Proceeds from the sale of capital assets	-	103,000
Interest income received	<u>122,376</u>	<u>131,425</u>
Net cash provided by (used in) investing activities	<u>(2,976,145)</u>	<u>4,322,376</u>
Net increase (decrease) in cash and cash equivalents	(166,903)	5,824,680
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,919,108</u>	<u>11,094,428</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,752,205</u>	<u>\$ 16,919,108</u>

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating loss	\$ (722,832)	\$ (3,793,794)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,670,023	3,592,083
Effects of changes in operating assets and liabilities:		
Receivables	277,622	315,041
Prepaid expenses and other assets	(326,713)	(210,127)
Accounts payable	(852,561)	1,362,415
Accrued expenses	<u>(258,413)</u>	<u>407,369</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,787,126</u>	<u>\$ 1,672,987</u>

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

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

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, 2015 and 2014

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, corporate debt, U.S. treasury notes and mutual funds. 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, 2015 and 2014

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. There was no capitalized interest in fiscal year 2015.

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. No deferred outflows of resources are reported in these financial statements in the current year.

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 one type of item which occurs related to revenue recognition. It occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2015 the carrying value of the District's deposits including money markets and cash were \$16,735,923 and the respective bank balances totaled \$16,623,134. At year end 2014 the carrying value of the District's deposits including cash, money markets certificates of deposits were \$13,826,789 and the respective bank balances totaled \$14,045,585, respectively.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

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 \$13,229,681 and \$8,911,767 at April 30, 2015 and 2014, respectively, were rated Aaa by Moody's Investors Service; of the District's mutual funds, \$-0- and \$190,721 at April 30, 2015 and 2014, respectively, were rated Aaa by Moody's Investors Service. The remaining mutual funds and corporate debt were not rated.

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 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, 2015, the District's bank deposits were not fully collateralized.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of April 30, 2015, the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 2,353,880	\$ 737,720	\$ 1,616,160	\$ -	\$ -
US treasury notes	<u>13,229,680</u>	<u>754,707</u>	<u>9,637,353</u>	<u>2,837,620</u>	<u>-</u>
Total	<u>\$ 15,583,560</u>	<u>\$ 1,492,427</u>	<u>\$11,253,513</u>	<u>\$ 2,837,620</u>	<u>\$ -</u>

As of April 30, 2014 the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 3,572,514	\$ 1,572,598	\$ 1,999,916	\$ -	\$ -
Mutual funds	2,901,600	2,901,600	-	-	-
US treasury notes	<u>8,911,767</u>	<u>-</u>	<u>6,579,531</u>	<u>2,332,236</u>	<u>-</u>
Total	<u>\$ 15,385,881</u>	<u>\$ 4,474,198</u>	<u>\$ 8,579,447</u>	<u>\$ 2,332,236</u>	<u>\$ -</u>

Below is a reconciliation of the above table to the Statement of Net Position for fiscal year ended:

	<u>2015</u>	<u>2014</u>
Total from investment table	\$ 15,583,560	\$15,385,881
Less mutual funds in cash equivalents on Statement of Net Position	<u>-</u>	<u>(2,901,600)</u>
Total Investments on Statement of Net Position	<u>\$ 15,583,560</u>	<u>\$ 12,484,281</u>

The District invests in various investment securities. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the Statement of Net Position.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

	<u>2015</u>	<u>2014</u>
Property tax receivable	\$ 3,524,337	\$ 3,397,174
Replacement tax receivable	82,674	64,820
Interest receivable	59,494	51,753
Billed user charges, net allowance of doubtful accounts of \$68,101 in 2015 and 2014	202,667	176,120
Unbilled user charges	138,617	235,095
Other receivables	-	43,881
Industrial user charges	<u>1,473,567</u>	<u>1,681,258</u>
Total	<u>\$ 5,481,356</u>	<u>\$ 5,650,101</u>

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 82% and 78% of the District's operating revenues for the years ended April 30, 2015 and 2014, respectively, were from two industrial customers. The accounts receivable from these two customers totaled \$1,405,988 and \$1,195,522 at April 30, 2015 and 2014, respectively.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 5 - CAPITAL ASSETS

Following is a summary of changes in capital assets and related depreciation for fiscal year ended April 30, 2015.

	<u>Balance</u> <u>April 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 2,935,993	\$ -	\$ -	\$ 2,935,993
Work in progress	<u>3,920,383</u>	<u>3,937,353</u>	<u>747,443</u>	<u>7,110,293</u>
Total capital assets not being depreciated	<u>6,856,376</u>	<u>3,937,353</u>	<u>747,443</u>	<u>10,046,286</u>
Capital assets being depreciated:				
Buildings and improvements	64,756,842	646,950	-	65,403,792
Infrastructure	69,856,003	700,446	-	70,556,449
Machinery and equipment	60,808,231	594,524	-	61,402,755
Vehicles	2,084,840	244,366	-	2,329,206
Land improvements	<u>5,414,180</u>	<u>104,062</u>	<u>-</u>	<u>5,518,242</u>
Total capital assets being depreciated	<u>202,920,096</u>	<u>2,290,348</u>	<u>-</u>	<u>205,210,444</u>
Less accumulated depreciation	<u>126,917,257</u>	<u>\$ 3,670,023</u>	<u>\$ -</u>	<u>130,587,280</u>
Capital assets, net	<u>\$ 82,859,215</u>			<u>\$ 84,669,450</u>

Work in progress at April 30, 2015 consists of the following projects:

Biogas Co-Generation Replacement Project	\$ 143,846
Sludge Thickening	385,297
Force Main Replacement	238,900
Digester Facility Mixers	5,727,389
Odor Control Phase II	503,817
Diffuser Project	<u>111,044</u>
Total	<u>\$ 7,110,293</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Following is a summary of changes in capital assets and related depreciation for fiscal year ended April 30, 2014.

	<u>Balance</u> <u>April 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 2,935,993	\$ -	\$ -	\$ 2,935,993
Work in progress	<u>2,379,635</u>	<u>3,638,811</u>	<u>2,098,063</u>	<u>3,920,383</u>
Total capital assets not being depreciated	<u>5,315,628</u>	<u>3,638,811</u>	<u>2,098,063</u>	<u>6,856,376</u>
Capital assets being depreciated:				
Buildings and improvements	64,653,518	103,324	-	64,756,842
Infrastructure	69,712,760	143,243	-	69,856,003
Machinery and equipment	58,167,752	2,640,479	-	60,808,231
Vehicles	2,788,502	80,328	783,990	2,084,840
Land improvements	<u>5,262,254</u>	<u>151,926</u>	<u>-</u>	<u>5,414,180</u>
Total capital assets being depreciated	<u>200,584,786</u>	<u>3,119,300</u>	<u>783,990</u>	<u>202,920,096</u>
Less accumulated depreciation:	<u>124,109,164</u>	<u>\$ 3,592,083</u>	<u>\$ 783,990</u>	<u>126,917,257</u>
Capital assets, net	<u>\$ 81,791,250</u>			<u>\$ 82,859,215</u>

Work in progress at April 30, 2014 consists of the following projects:

Biogas Co-Generation Replacement Project	\$ 143,846
Sludge Thickening	30,813
St. Louis Bridge MCC Replacement	91,545
Digester Facility Mixers	2,930,037
Odor Control Phase II	68,245
Spring Creek Bridge	546,447
Chlorine Building Expansion	6,500
Ammonia Building	<u>102,950</u>
Total	<u>\$ 3,920,383</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

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 \$220,763 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, 2015, the Village owes \$3,804,748. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 206,704	\$ -	\$ 206,704
2017	137,803	-	137,803
2018	137,803	-	137,803
2019	137,803	-	137,803
2020	137,803	-	137,803
2021-2025	689,017	-	689,017
2026-2030	689,017	-	689,017
2031-2035	689,017	-	689,017
2036-2040	689,017	-	689,017
2041-2045	<u>290,764</u>	<u>-</u>	<u>290,764</u>
Total	<u>\$ 3,804,748</u>	<u>\$ -</u>	<u>\$ 3,804,748</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 \$286,784 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, 2015, the Argenta Sanitary District owes \$5,210,086. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 91,629	\$ 64,848	\$ 156,477
2017	97,487	63,684	161,171
2018	103,560	62,447	166,007
2019	109,854	61,133	170,987
2020	116,376	59,740	176,116
2021-2025	688,261	274,816	963,077
2026-2030	890,165	226,306	1,116,471
2031-2035	1,086,045	164,615	1,250,660
2036-2040	1,167,476	94,209	1,261,685
2041-2045	<u>859,233</u>	<u>21,570</u>	<u>880,803</u>
Total	<u>\$ 5,210,086</u>	<u>\$ 1,093,368</u>	<u>\$ 6,303,454</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT

Notes Payable

The following is a summary of changes in notes payable for the years ended April 30, 2015 and 2014:

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	Current Portion
Note payable to the IEPA, for the Norfolk & Western Railroad project; interest at 3.015%; due in semi-annual installments in April and October of each year through October 2014.	\$ 10,985	\$ -	\$ 7,268	\$ 3,717	\$ -	\$ 3,717	\$ -	\$ -
Note payable to the IEPA, for the Northeast Supplemental Sewer project; interest at 2.815%; due in semi-annual installments in June and July of each year through July 2015. Paid off in fiscal year 2014.	136,703	-	136,703	-	-	-	-	-

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	Current Portion
Note payable to the IEPA, for the Stevens Creek project; interest at 2.890%; due in semi-annual installments in April and October of each year through October 2017. Paid off in fiscal year 2014.	\$ 2,197,115	\$ -	\$ 2,197,115	\$ -	\$ -	\$ -	\$ -	\$ -
Note payable to the IEPA, for the McKinley Avenue Supplemental Sewer project; interest at 2.865%; due in semi-annual installments in February and August of each year through February 2019. Paid off in fiscal year 2014.	1,546,412	-	1,546,412	-	-	-	-	-
Note payable to the IEPA, for the Hickory Point West Extension project; 92.2265% payable by Village of Forsyth; interest at 2.500%; due in semi-annual installments in May and November of each year through April 2026. Paid off in fiscal year 2014.	50,911	-	50,911	-	-	-	-	-
Note payable to the IEPA, for the 1995 Sewer Rehabilitation project; interest at 2.890%; due in semi-annual installments in May and November of each year through May 2017. Paid off in fiscal year 2014.	571,845	-	571,845	-	-	-	-	-

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	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.	\$ 436,866	\$ -	\$ 101,326	\$ 335,540	\$ -	\$ 104,003	\$ 231,537	\$ 106,751
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.	895,038	-	109,797	785,241	-	112,598	672,643	115,470
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.	337,618	-	27,314	310,304	-	28,002	282,302	28,706
Note payable to the IEPA, for the Harryland Road project; interest at 2.9050%; due in semi-annual installments in March and September of each year through September 2021. Paid off in fiscal year 2014.	276,093	-	276,093	-	-	-	-	-

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	Current Portion
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.	\$ 1,828,754	\$ -	\$ 139,876	\$ 1,688,878	\$ -	\$ 143,395	\$ 1,545,483	\$ 147,002
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.	1,243,640	-	99,720	1,143,920	-	102,300	1,041,620	104,946
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.	507,663	-	30,699	476,964	-	31,472	445,492	32,264
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.	1,105,572	-	74,323	1,031,249	-	76,193	955,056	78,109

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	Current Portion
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.	\$ 735,670	\$ -	\$ 42,038	\$ 693,632	\$ -	\$ 42,038	\$ 651,594	\$ 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.	4,539,788	-	240,701	4,299,087	-	252,888	4,046,199	252,888
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.	712,167	-	40,696	671,471	-	40,695	630,776	40,695
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.	4,145,223	1,081,054	193,468	5,032,809	-	315,572	4,717,237	248,715
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.	1,523,017	-	71,488	1,451,529	-	72,385	1,379,144	73,292

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Principal Outstanding April 30, 2013	Issuances	Retirements	Principal Outstanding April 30, 2014	Issuances	Retirements	Principal Outstanding April 30, 2015	Current Portion
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.	\$ 1,957,283	\$ 349,744	\$ 89,994	\$ 2,217,033	\$ -	\$ 107,223	\$ 2,109,810	\$ 108,568
Note payable to the IEPA, for the Primary Digester Upgrade; interest at 1.9300%; due in semi-annual installments in November in May each year through 2035.	-	461,521	-	461,521	4,492,139	-	4,953,660	-
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.	-	-	-	-	344,978	-	344,978	-
Totals	24,759,022	1,892,319	6,047,787	20,602,895	4,837,117	1,432,481	24,007,531	1,379,444
Payment received from City of Decatur not remitted to IEPA as of April 30 for Staley Sewer Rehabilitation	23,236			22,936	-	22,936	-	-
Total	\$ 24,782,258			\$ 20,625,831	\$ 4,837,117	\$ 1,455,417	\$ 24,007,531	\$ 1,379,444

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

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			
2016	\$ 1,379,444	\$ 229,970	\$ 1,609,414
2017	1,400,966	208,448	1,609,414
2018	1,325,264	187,431	1,512,695
2019	1,329,109	168,172	1,497,281
2020	1,348,581	148,700	1,497,281
2021-2025	6,145,095	468,734	6,613,829
2026-2030	4,344,269	169,972	4,514,241
2031-2035	<u>1,436,165</u>	<u>23,277</u>	<u>1,459,442</u>
Total	18,708,893	<u>\$ 1,604,704</u>	<u>\$ 20,313,597</u>
Loan balance, Primary Digester Upgrade— open loan	4,953,660		
Loan balance, Sludge Thickening System— open loan	<u>344,978</u>		
Total	<u>\$ 24,007,531</u>		

A contract was entered into in October 2013 for the Primary Digester Upgrade project. The project is supported by the Illinois Environmental Protection Agency (IEPA) Revolving Loan Fund Program. The Primary Digester Upgrade had drawdowns totaling \$4,953,660 as of April 30, 2015 which are required to be repaid over twenty years. The maximum loan amount is \$7,305,080.

A contract was entered into in October 2014 for the Sludge Thickening System. The project is supported by the Illinois Environmental Projection Agency (IEPA) Revolving Loan Fund Program. The Sludge Thickening System had drawdowns totaling \$344,978 as of April 30, 2015 which are required to be repaid over twenty years. The maximum loan amount is \$5,507,673.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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, 2015 and 2014, there was principal outstanding in the amount of \$3,648,839 and \$4,590,923.

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. The remaining balance will be distributed to the District in fiscal year 2016. Principal and interest are due April 24 and October 24 at an interest rate of 2.55%. At April 30, 2015, there was principal outstanding in the amount of \$108,500.

	<u>Balance</u> <u>April 30, 2014</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance</u> <u>April 30, 2015</u>	<u>Current</u>
General Obligation Debt Certificates, Series 2013	\$ 4,590,923	\$ -	\$ 942,084	\$ 3,648,839	\$ 969,088
General Obligation Debt Certificates, Series 2015	<u>-</u>	<u>108,500</u>	<u>-</u>	<u>108,500</u>	<u>108,500</u>
Total	<u>\$ 4,590,923</u>	<u>\$ 108,500</u>	<u>\$ 942,084</u>	<u>\$ 3,757,339</u>	<u>\$1,077,588</u>

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			
2016	\$ 1,077,588	\$ 70,933	\$ 1,148,521
2017	939,457	48,931	988,388
2018	890,203	30,008	920,211
2019	310,421	15,460	325,881
2020	177,866	5,785	183,651
2021-2025	205,382	4,108	209,490
2026-2030	<u>156,422</u>	<u>3,128</u>	<u>159,550</u>
Total	<u>\$ 3,757,339</u>	<u>\$ 178,353</u>	<u>\$ 3,935,692</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 8 - PENSION PLAN

Plan Description

The District's defined benefit pension plan for District employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The District's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. 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 financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

Funding Policy

As set by statute, District plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's contribution rate for calendar year 2014 was 15.64 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2014 was 17.36 percent. 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 the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost and Net Pension Obligation

For calendar year ending December 31, 2014, the District's actual contributions for pension cost for the Plan were \$1,367,045. Its required contribution for calendar year 2014 was \$567,045. For calendar year ending December 31, 2013 the District's actual contributions for pension cost to the Plan were \$484,103. Its required contribution for calendar year 2013 was \$524,793.

Three Year Trend Information for the Plan			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/14	\$ 567,045	100%	\$ (407,257)
12/31/13	524,793	92%	344,683
12/31/12	510,416	90%	289,902

The required contribution for 2014 was determined as part of the December 31, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2012, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the District's plan assets was determined using techniques that spread the effects of short-term volatility in the market value of your investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability at December 31, 2012 is being amortized as a level percentage of projected payroll on an open 29 year basis.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 8 - PENSION PLAN (CONTINUED)

The District chose to make the minimum allowed contribution versus the required contribution because the required contribution increased significantly due to investment returns that were below the actuarial assumption of 7.5%. It is assumed that investment returns will come back to the historical average, the net pension obligation will be eliminated and the District will again be making the required contribution within five years.

The net pension obligation (asset) was calculated as follows:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 418,483	\$ 572,012
Interest on net pension obligation	25,851	21,743
Adjustment to annual required contribution	<u>(19,254)</u>	<u>(15,856)</u>
Annual pension cost	425,080	577,899
Contributions made by the District	<u>1,177,020</u>	<u>523,118</u>
(Decrease) increase in net pension obligation	(751,940)	54,781
Net pension obligation, beginning of year	<u>344,683</u>	<u>289,902</u>
Net pension obligation (asset), end of year	<u>\$ (407,257)</u>	<u>\$ 344,683</u>

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was 62.13 percent funded. The actuarial accrued liability for benefits was \$11,520,102 and the actuarial value of assets was \$7,157,289, resulting in an underfunded actuarial accrued liability (UAAL) of \$4,362,813. The covered payroll for calendar year 2014 (annual payroll of active employees covered by the plan) was \$3,625,609 and the ratio of the UAAL to the covered payroll was 120 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

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.

Employer Contributions

The District 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 ¼ % 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.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The net OPEB asset was calculated as follows:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 126,643	\$ 130,703
Interest on net OPEB asset	(6,465)	(5,437)
Adjustment to annual required contribution	<u>10,674</u>	<u>8,976</u>
Annual OPEB cost	130,852	134,242
Contributions made by the District	<u>168,163</u>	<u>168,514</u>
Increase in net OPEB asset	(37,311)	(34,272)
Net OPEB asset, beginning of year	<u>(215,491)</u>	<u>(181,219)</u>
Net OPEB asset, end of year	<u>\$ (252,802)</u>	<u>\$ (215,491)</u>

Schedule of Employer Contributions

	May 1, 2015	May 1, 2014
Actuarial valuation date		
Annual required contribution (ARC)	\$ 126,643	\$ 130,703
Estimated contributions made by the District	\$ 168,163	\$ 168,514
Percentage of ARC contributed	132.8%	128.9%

Funded Status and Funding Progress

	May 1, 2015	May 1, 2014
Actuarial valuation date		
Actuarial accrued liability (AAL)	\$1,233,030	\$ 1,226,402
Unfunded actuarial accrued liability (UAAL)	\$1233,030	\$ 1,226,402
Funded ratio (actuarial value of plan assets/AAL)	0%	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.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2015 and 2014**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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.

In the May 1, 2015 and 2014 actuarial valuations, the projected unit credit method was used. The actuarial assumptions included an investment return rate of 3%, salary increases comprised of a wage inflation component of 3%, and a healthcare cost trend rate of 5%. The calculations assume a level dollar open amortization period and amortization factor of 20.188.

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

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, 2015, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$15,468,329, which were at varying stages of completion. 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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended April 30, 2015**

Illinois Municipal Retirement Fund

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)
12/31/14	\$ 7,157,289	\$ 11,520,102	\$4,362,813	62.13%	\$ 3,625,609	120.33%
12/31/13	5,334,196	10,135,430	4,801,234	52.63%	3,477,755	138.06%
12/31/12	2,192,487	8,888,216	6,695,729	24.67%	3,645,825	183.65%

On a market value basis, the actuarial value of assets as of December 31, 2014 is \$9,735,144. On a market basis, the funded ratio would be 84.51%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with the District. They do not include amounts for retirees. The actuarial liability for retirees is 100% funded.

Other Post-Employment Benefits

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)
05/01/13	\$ -	\$ 1,226,402	\$1,226,402	0.00%	N/A	N/A
05/01/11	-	1,371,842	1,371,842	0.00%	N/A	N/A
05/01/09	-	1,186,487	1,186,487	0.00%	N/A	N/A

SINGLE AUDIT SECTION

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, 2015, 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 September 22, 2015.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2015-001 and 2015-002 to be material weaknesses.

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. We noted no deficiencies in internal control that we consider to be significant deficiencies.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2015-002.

Sanitary District of Decatur's Response to Findings

Sanitary District of Decatur's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Sanitary District of Decatur's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Champaign, Illinois
September 22, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Sanitary District of Decatur
Decatur, Illinois

Report on Compliance for Each Major Federal Program

We have audited Sanitary District of Decatur's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Sanitary District of Decatur's major federal program for the year ended April 30, 2015. Sanitary District of Decatur's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Sanitary District of Decatur's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sanitary District of Decatur's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Sanitary District of Decatur's compliance.

Opinion on Each Major Federal Program

In our opinion, the Sanitary District of Decatur complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2015.

Report on Internal Control Over Compliance

Management of the Sanitary District of Decatur is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sanitary District of Decatur's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sanitary District of Decatur's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Champaign, Illinois
September 22, 2015

**SANITARY DISTRICT OF DECATUR
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended April 30, 2015**

Federal Grantor/ Pass Through <u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Flow-through from Illinois Environmental Protection Agency: Capitalization Grant for Clean Water State Revolving Funds	66.458	L17-4876	\$ 2,769,755

SANITARY DISTRICT OF DECATUR
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
April 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - LOAN BALANCES

The project listed on the Schedule of Expenditures of Federal Awards resulted in an accumulated loan balance of \$4,953,660 as of April 30, 2015, which includes both a state and federal component.

NOTE 3 - OTHER ASSISTANCE

The District did not receive any federal awards in the form of non-cash assistance for insurance in effect during the year, loans, or loan guarantees during the fiscal year ended April 30, 2015.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2015**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: unmodified opinion
 Internal control over financial reporting:
 • Material weakness identified? Yes No
 • Significant deficiencies identified that are not considered
 to be material weaknesses? Yes None reported
 Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
 • Material weakness identified? Yes No
 • Significant deficiencies identified that are not considered
 to be material weakness? Yes No
 Type of auditors’ report issued on compliance for major
 programs: unmodified opinion
 Any audit findings disclosed that are required to be reported in accordance with section 510(a) of
 OMB Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000
 Auditee qualified as low-risk auditee? Yes No

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2015**

Section II – Financial Statement Findings

FINDING NO. 2015-001 – 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 relies on the audit firm to prepare the annual financial statements and related footnote disclosures and accrual adjustments. However, they have reviewed and approved the annual financial statements and the related footnote disclosures and accrual adjustments. Budgetary records are on the cash basis.

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

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2015**

Section II – Financial Statement Findings (Continued)

FINDING NO. 2015-002 – COLLATERALIZATION OF BANK ACCOUNTS

Criteria: State statutes require deposits of public funds to be insured or collateralized.

Condition: The District's bank account balance was not fully collateralized at one of its depositories as of the fiscal year end.

Context: The District did have additional collateral with the bank above FDIC limits, but the additional collateral did not cover the full bank balance as of April 30, 2015 by \$383,900.

Cause: The District relies on the bank to review its monthly account balances and increase the collateral as the account fluctuates throughout the year.

Effect: The potential exists that the funds in excess of the collateralized balance would not be recovered if the bank were to fail.

Recommendation: Management should establish and maintain internal controls to review the bank account balances monthly to ensure bank balances are fully collateralized.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding

We received a \$515,000 wire transfer from Tate and Lyle on April 30, 2015 that was not expected by Busey. We will develop a system to try to inform Busey of large deposits if we know they are coming. The District will continue to work with the bank to ensure bank balances are fully collateralized.

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.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2015**

Section III – Federal Awards and Questioned Costs

None to report.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
Year Ended April 30, 2015**

YEAR ENDED APRIL 30, 2014

**FINDING NO. 2014-001 - FINANCIAL STATEMENT PREPARATION AND ACCRUAL
ADJUSTMENTS**

Condition: The District engages CliftonLarsonAllen to assist in preparing its financial statements and accompanying disclosures including adjustments to the accrual basis of accounting. However, as independent auditors, CliftonLarsonAllen cannot be considered part of the District's internal control system.

Condition still exists, see finding 2015-001.