

SANITARY DISTRICT OF DECATUR
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED APRIL 30, 2019 AND 2018



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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 years ended April 30, 2019 and 2018, 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 audits. We conducted our audits 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, 2019 and 2018, and the change 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.

Emphasis-of-Matter

Change in Accounting Principle

During the fiscal year ended April 30, 2019, Sanitary District of Decatur adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, Sanitary District of Decatur reported a restatement for the change in accounting principle (see Note 12). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer contributions, schedule of changes in the net pension liability (asset) and related ratios, and schedule of changes in total OPEB liability and related ratios 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Trustees
Sanitary District of Decatur

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2019, 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 solely 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 the effectiveness of the Sanitary District of Decatur's 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Champaign, Illinois
August 23, 2019

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED APRIL 30, 2019 AND 2018**

The Sanitary District of Decatur (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal year ended April 30, 2019 and 2018. 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, 2019 and 2018, 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 2019, the number of full-time positions was increased to 57, however, the number of employees only increased to 56 from 55. This was due to the new project manager position not being filled as the District worked on replacing vacancies in several other positions. It is expected that the position will be filled the second quarter of the next fiscal year. The District treated a maximum flow of 97.5 million gallons per day in 2019 down from 104.8 million gallons per day in 2018. The average flow was 32.8 million gallons of wastewater a day in 2019 and 27.82 million gallons of wastewater a day in 2018. 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. In 2019, the District received a site specific rule for a higher nickel limit from the Illinois Pollution Control Board that was approved by the USEPA; however, the IEPA has not been able to change the permit to match the new limit because the District is operating under an administrative continuation permit. The District fully expects the new permit to include the approved nickel limit whenever it is issued.

FINANCIAL HIGHLIGHTS

- During the fiscal year 2019, the District's net position increased \$6,765,000 representing an increase of 6.2%. During the fiscal year 2018, the District's net position increased \$6,939,000 representing an increase of 6.7%
- During the fiscal year 2019 operating expenses increased by \$1,729,000 or 17.2%. This increase was due to increased pension expense in 2019 compared to 2018 which was the result of pension fund investment losses.
- Total revenues for fiscal year 2019 were \$1,621,000 higher than fiscal year 2018 because of revenue from penalties and user fees paid by industrial customers. The revenue from penalties is expected to return to normal levels in FY 2020. The additional user fees are anticipated to continue into the future.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED APRIL 30, 2019 AND 2018**

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 nonfinancial 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
YEARS ENDED APRIL 30, 2019 AND 2018**

FINANCIAL ANALYSIS OF THE DISTRICT

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

	FY 2019	FY 2018	FY 2017	2019 vs. 2018	
				Dollar Change	Percent Change
Current and Other Assets	\$ 61,563	\$ 58,887	\$ 52,196	\$ 2,676	
Capital Assets	97,454	93,003	94,402	4,451	
Deferred Outflows	3,038	267	3,153	2,771	
Total Assets and Deferred Outflows	162,055	152,157	149,751	9,898	6.5%
Outstanding Debt	35,084	33,226	36,460	1,858	
Other Liabilities and Deferred Inflows	11,587	8,144	9,443	3,443	
Total Liabilities and Deferred Inflows	46,671	41,370	45,903	5,301	12.8%
Net Investment in Capital Assets	61,670	59,719	57,467	1,951	
Restricted for Pension and OPEB	-	3,467	411	(3,467)	
Unrestricted	53,714	47,601	45,970	6,113	
Total Net Position	<u>\$ 115,384</u>	<u>\$ 110,787</u>	<u>\$ 103,848</u>	<u>\$ 4,597</u>	4.1%

For fiscal year 2019, the increase in net position was due to assets increasing more than liabilities increased. The District had a large multi-year capital project that was being funded IEPA loans. The District paid for the construction costs with Current Assets on hand until the reimbursement is issued and the debt is recorded as a liability.

Current and other assets increased as the District collected more cash than it spent. During fiscal year 2019, the amount of user fees and penalties collected from industrial customers was much greater than expected for the second year in a row. The industrial user that was driving the increase in penalties has corrected the outstanding issue and penalties will be back to the average amount in FY 2020. The District's two largest customers have increased discharge to the District by more than the expected amount which led to higher than normal user fees. This is related to the production needs of the customers and varies based on many factors including weather, product mixes, economic conditions and crop production.

Deferred Outflows are related to pension fund investment returns being lower than the assumed return.

The increase in Other Liabilities is related to implementation of GASB 75 and the liabilities associated with Postemployment Benefits Other Than Pensions or OPEB.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED APRIL 30, 2019 AND 2018**

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.

	FY 2019	FY 2018	FY 2017	2019 vs. 2018	
				Dollar Change	Percent Change
Operating Revenues	\$ 18,295	\$ 17,376	\$ 15,019	\$ 919	
Nonoperating Revenues	5,177	4,475	5,295	702	
Total Revenues	23,472	21,851	20,314	1,621	7.4%
Operating Expense	11,773	10,044	11,346	1,729	
Depreciation Expense	4,486	4,252	3,873	234	
Nonoperating Expense	448	616	380	(168)	
Total Expenses	16,707	14,912	15,599	1,795	12.0%
Changes in Net Position	6,765	6,939	4,715	(174)	
Beginning Net Position (as Restated)	108,619	103,848	99,133	4,771	
Total Net Position	\$ 115,384	\$ 110,787	\$ 103,848	\$ 4,597	4.1%

The major factors for fiscal year 2019 which contributed to these results include:

- Most of the increase in operating revenues was the result of increased revenue from industrial user charges and penalties.
- The increase in operating expenses was mainly due to pension costs.
- The amount of increase in the net position was slightly less than the prior year as a result of revenues increasing less than expenses.
- The Beginning Net Position was restated to account for changes required by GASB 75 implementation.

CAPITAL ASSETS

At the end of fiscal years 2019 and 2018, the District had \$97,454,000 and \$93,003,000 invested in capital assets (net of depreciation), respectively. As of April 30, 2019, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling \$6,211,163. The District is obligated to pay the cost under these contracts as the work is completed.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED APRIL 30, 2019 AND 2018**

DEBT ADMINISTRATION

As of April 30, 2019, the District has outstanding loans from the Illinois Revolving Loan and Debt Certificates with Hickory Point Bank in the amount of \$35,084,283 of which the principal and interest due in the upcoming fiscal year are \$2,342,474 and \$431,029, respectively. As of April 30, 2018, the District had outstanding loans from the Illinois Revolving Loan Fund and Debt Certificates with Hickory Point Bank in the amount of \$33,226,457. 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 about a half percent higher in the Decatur area than the rest of Illinois. The unemployment rate has increased from 4.9% in 2018 to 5.5% in 2019 but is trending back down and the number of people employed remains fairly constant. The influence of the Midwest Inland Port continues to expand the attractiveness of Decatur as a destination for production and distribution jobs and Mueller Company recently announced the construction of a new foundry in Decatur to replace their century old location. Most development does not appear to be a significant source of new user fees for the District but helps stabilize the declining population and taxable property values of the District.

The major industrial user class generates more than 70% of the billable flow. Industrial user fee revenue increased by 11.2% in 2019, but the per unit user charge rate only increased by 1.4%. The industrial user revenue is higher than the fee increase because the volume of waste discharged increased. The volume increase is expected to remain in future years.

The continuing financial instability for the state of Illinois appears to have hit a dormant stage as the Executive and Legislative branches of government try to work together. This does not have a direct impact on the District because less than two percent (2%) of total revenue comes directly from the state.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED APRIL 30, 2019 AND 2018**

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

Domestic user charge rates are listed below:

Domestic User Charge Rates

	FY 18/19	FY 17/18	FY 16/17	FY 15/16	FY 14/15	FY 13/14
Cost Per 100 cu. ft.	\$ 1.43	\$ 1.41	\$ 1.39	\$ 1.32	\$ 1.22	\$ 1.12
Average Annual Costs Per User's Household	\$ 139.67	\$ 137.10	\$ 135.40	\$ 133.69	\$ 127.71	\$ 119.17

The District's long-range capital financing plan calls for user fees to be increased by three to seven cents per 100 cubic feet per year through 2037. This includes a projected increase of four cents in fiscal year 2019 to keep pace with increasing expenses. Regulatory changes are not factored into 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
STATEMENTS OF NET POSITION
APRIL 30, 2019 AND 2018**

	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 17,844,183	\$ 16,971,602
Investments	29,259,539	24,396,591
Receivables, Net	6,424,626	5,770,880
Prepaid Expenses	42,862	40,634
Notes Receivable - Village of Oreana, Current Portion	137,803	137,803
Notes Receivable - Argenta Sanitary District, Current Portion	116,376	109,854
Total Current Assets	53,825,389	47,427,364
NONCURRENT ASSETS		
Other Postemployment Benefits Asset	-	534,971
Net Pension Asset	-	2,932,334
Capital Assets, Net of Accumulated Depreciation	97,454,039	93,003,772
Notes Receivable - Village of Oreana, Less Current Portion	3,046,833	3,184,636
Notes Receivable - Argenta Sanitary District, Less Current Portion	4,691,180	4,807,556
Total Noncurrent Assets	105,192,052	104,463,269
Total Assets	159,017,441	151,890,633
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount Related to OPEB Liability	14,700	-
Deferred Amount Related to Pension Liability (Asset)	3,022,977	266,980
Total Deferred Outflows of Resources	3,037,677	266,980
Total Assets and Deferred Outflows of Resources	\$ 162,055,118	\$ 152,157,613

See accompanying Notes to Financial Statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF NET POSITION (CONTINUED)
APRIL 30, 2019 AND 2018**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
CURRENT LIABILITIES		
Accounts Payable, Including Retainage of \$700,229 and \$58,556, Respectively	\$ 2,651,513	\$ 890,621
Accrued Expenses	626,695	635,500
Other Unearned Income	500,000	500,000
Debt Certificates, Current Maturities	427,445	553,756
Notes Payable, Current Maturities	1,915,029	1,831,613
Total Current Liabilities	6,120,682	4,411,490
LONG-TERM LIABILITIES		
Debt Certificates, Less Current Maturities	786,858	1,214,302
Notes Payable, Less Current Maturities	31,954,951	29,626,786
Total OPEB Liability	1,565,445	-
Net Pension Liability	2,186,514	-
Total Long-Term Liabilities	36,493,768	30,841,088
Total Liabilities	42,614,450	35,252,578
DEFERRED INFLOWS OF RESOURCES		
Deferred Amount Related to Pension Liability (Asset)	490,104	2,539,041
Subsequent Year's Property Taxes	3,566,355	3,578,521
Total Deferred Inflows of Resources	4,056,459	6,117,562
NET POSITION		
Net Investment in Capital Assets	61,669,527	59,718,759
Restricted for Pension and OPEB	-	3,467,305
Unrestricted	53,714,682	47,601,409
Total Net Position	115,384,209	110,787,473
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 162,055,118	\$ 152,157,613

See accompanying Notes to Financial Statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
OPERATING REVENUES		
Industrial User Charges and Penalties	\$ 13,371,078	\$ 12,064,926
User Charges	4,420,614	4,822,860
Annexations	40,634	7,359
Pump Stations	108,195	107,699
Miscellaneous	354,855	373,229
Total Operating Revenues	18,295,376	17,376,073
OPERATING EXPENSES		
Personnel Services	5,402,529	4,431,643
Operations and Maintenance	4,396,313	3,106,106
Building and Grounds	140,096	292,171
Contractual/Outside Services	782,004	880,051
Depreciation Expense	4,486,306	4,251,978
Bad Debt Expense (Recovery)	586	(15,613)
General and Administrative Expenses	1,050,677	1,350,091
Total Operating Expenses	16,258,511	14,296,427
OPERATING INCOME	2,036,865	3,079,646
NONOPERATING REVENUES (EXPENSES)		
Property Taxes	3,603,366	3,845,731
Replacement Taxes	380,591	351,809
State Funding	88,116	-
Net Investment Income (Loss)	1,018,646	(201,340)
Interest Expense	(448,030)	(414,161)
Gain on Disposal of Assets	-	185,040
Other Income	85,887	92,615
Total Nonoperating Revenues	4,728,576	3,859,694
CHANGE IN NET POSITION	6,765,441	6,939,340
Net Position - Beginning of Year, As Restated (See Note 12)	108,618,768	103,848,133
NET POSITION - END OF YEAR	\$ 115,384,209	\$ 110,787,473

See accompanying Notes to Financial Statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 17,216,854	\$ 16,995,765
Payments to Suppliers	(3,845,116)	(6,845,383)
Payments to Employees	(5,405,834)	(4,395,089)
Net Cash Provided by Operating Activities	7,965,904	5,755,293
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Tax Receipts	3,603,366	3,845,731
Replacement Tax Receipts	352,092	341,149
Net Cash Provided by Noncapital Financing Activities	3,955,458	4,186,880
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(8,936,573)	(2,855,258)
Proceeds from the Sale of Capital Assets	-	186,149
Principal Payments on Notes Payable and Debt Certificates	(2,687,567)	(3,234,297)
State Funding	88,116	-
Proceeds from Notes Payable and Debt Certificates	4,545,393	1,014
Interest Paid on Notes Payable and Debt Certificates	(453,530)	(423,833)
Receipts on Notes Receivable	333,544	333,978
Net Cash Used by Capital and Related Financing Activities	(7,110,617)	(5,992,247)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and Maturity of Investments	6,854,498	3,915,000
Purchase of Investments	(11,375,681)	(4,070,365)
Interest Income Received	583,019	314,299
Net Cash Provided (Used) by Investing Activities	(3,938,164)	158,934
NET INCREASE IN CASH AND CASH EQUIVALENTS	872,581	4,108,860
Cash and Cash Equivalents - Beginning of Year	16,971,602	12,862,742
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 17,844,183	\$ 16,971,602

See accompanying Notes to Financial Statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 2,036,865	\$ 3,079,646
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,486,306	4,251,978
Bad Debt Expense (Recovery)	586	(15,613)
Effects of Changes in Operating Assets and Liabilities:		
Receivables	(544,137)	(364,695)
Prepaid Expenses	(2,228)	(115,007)
Accounts Payable	1,760,892	(584,505)
Accrued Expenses	(3,305)	36,554
Net Pension Liability (Asset)	5,118,848	(5,782,077)
Total OPEB Liability	(68,289)	-
Deferred Outflows of Resources for Pension	(2,755,997)	2,885,707
Deferred Outflows of Resources for OPEB	(14,700)	-
Deferred Inflows of Resources for Pension	(2,048,937)	2,363,305
Net Cash Provided by Operating Activities	\$ 7,965,904	\$ 5,755,293

See accompanying Notes to Financial Statements.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanitary District of Decatur (the 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, Illinois 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 subfunds 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, 2019 AND 2018**

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 deferred outflows of resources, and liabilities and deferred inflows of resources, and disclosure of contingent assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 statements 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, 2019 AND 2018**

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 through April 30, 2018. At May 1, 2018, listed below are the initial costs equal to or more than utilized by the District. 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:

	<u>Amount</u>	<u>Useful Life</u>
Land	\$ 25,000	Nondepreciable
Land Improvements	50,000	20 Years
Buildings and Improvements	50,000	20 to 50 Years
Infrastructure	150,000	50 Years
Machinery and Equipment	10,000	5 to 15 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 \$92,189 and \$171,023 was capitalized in fiscal years 2019 and 2018, respectively.

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 nonvesting 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 statements of net position. The District has two types of deferred outflows of resources which occurs related to its pension and other post employment benefits (OPEB) plans. The District has deferred outflows related to pension and OPEB expenses to be recognized in future periods.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Pensions

For purposes of measuring the net pension asset/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 inflows 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.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end 2019, the carrying value of the District's deposits including cash and money markets were \$17,844,183 and the respective bank balances totaled \$18,116,821. At year-end 2018, the carrying value of the District's deposits including cash and money markets were \$16,971,602 and the respective bank balances totaled \$16,859,197.

Interest Rate Risk

Interest rate risk is 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

Credit risk is 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 \$14,281,376 at April 30, 2019, were rated Aaa by Moody's Investors Service. At April 30, 2019, the District's investments representing greater than 5% of their portfolio were U.S. treasury notes, which totaled \$14,281,376. The District's investments in U.S. treasury notes of \$16,259,894 at April 30, 2018, were rated Aaa by Moody's Investors Service. At April 30, 2018, the District's investments representing greater than 5% of their portfolio were U.S. treasury notes, which totaled \$16,259,894.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits and Certificates of Deposit

Custodial credit risk is 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, 2019 and 2018, the District's bank deposits were fully insured or collateralized.

As of April 30, 2019, the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	More Than 5
Certificates of Deposit - Negotiable	\$ 8,917,485	\$ 841,797	\$ 8,075,688	\$ -
Certificates of Deposit - Nonnegotiable	6,060,678	2,000,000	4,060,678	-
U.S. Treasury Notes	14,281,376	1,894,311	12,387,065	-
Total	<u>\$ 29,259,539</u>	<u>\$ 4,736,108</u>	<u>\$ 24,523,431</u>	<u>\$ -</u>

As of April 30, 2018, the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	More Than 5
Certificates of Deposit - Negotiable	\$ 4,102,087	\$ 512,984	\$ 3,589,103	\$ -
Certificates of Deposit - Nonnegotiable	4,034,610	1,004,498	3,030,112	-
U.S. Treasury Notes	16,259,894	5,245,079	10,030,285	984,530
Total	<u>\$ 24,396,591</u>	<u>\$ 6,762,561</u>	<u>\$ 16,649,500</u>	<u>\$ 984,530</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, 2019 and 2018:

Level 2 Inputs of \$23,198,861 and \$20,361,981 for 2019 and 2018, respectively, including negotiable certificates of deposit and U.S. treasury securities.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 3 RECEIVABLES

Receivables are summarized as follows as of April 30:

	<u>2019</u>	<u>2018</u>
Property Tax Receivable	\$ 3,566,355	\$ 3,578,521
Replacement Tax Receivable	103,805	75,306
Interest Receivable	201,425	107,563
Billed User Charges, Net Allowance of Doubtful Accounts of \$61,037 and \$60,451, Respectively	254,708	203,231
Unbilled User Charges	214,716	219,556
Industrial User Charges	<u>2,083,617</u>	<u>1,586,703</u>
Total	<u>\$ 6,424,626</u>	<u>\$ 5,770,880</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 93% of the District's operating revenues for the year ended April 30, 2019, was from two industrial customers. The accounts receivable from these two customers totaled \$1,929,807 at April 30, 2019. Approximately 85% of the District's operating revenues for the year ended April 30, 2018, was from two industrial customers. The accounts receivable from these two customers totaled \$1,521,601 at April 30, 2018.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 5 CAPITAL ASSETS

Following is a summary of changes in capital assets and related depreciation for fiscal years ended April 30, 2019 and 2018.

	Balance April 30, 2018	Increases	Decreases	Balance April 30, 2019
Capital Assets, Not Being Depreciated:				
Land	\$ 2,935,993	\$ -	\$ -	\$ 2,935,993
Work in Progress	1,337,720	8,423,828	2,029,896	7,731,652
Total Capital Assets Not Being Depreciated	4,273,713	8,423,828	2,029,896	10,667,645
Capital Assets Being Depreciated:				
Buildings and Improvements	80,795,700	830,894	-	81,626,594
Infrastructure	77,496,661	1,199,002	-	78,695,663
Machinery and Equipment	59,119,119	427,241	358,390	59,187,970
Vehicles	1,660,928	85,504	-	1,746,432
Land Improvements	5,565,525	-	6,400	5,559,125
Total Capital Assets Being Depreciated	224,637,933	2,542,641	364,790	226,815,784
Less: Accumulated Depreciation	135,907,874	4,486,306	364,790	140,029,390
Capital Assets, Net	<u>\$ 93,003,772</u>	<u>\$ 6,480,163</u>	<u>\$ 2,029,896</u>	<u>\$ 97,454,039</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Balance April 30, 2017	Increases	Decreases	Balance April 30, 2018
Capital Assets, Not Being Depreciated:				
Land	\$ 2,935,993	\$ -	\$ -	\$ 2,935,993
Work in Progress	9,963,324	1,642,808	10,268,412	1,337,720
Total Capital Assets Not Being Depreciated	12,899,317	1,642,808	10,268,412	4,273,713
Capital Assets Being Depreciated:				
Buildings and Improvements	70,694,306	10,101,394	-	80,795,700
Infrastructure	77,123,378	373,283	-	77,496,661
Machinery and Equipment	62,891,969	932,151	4,705,001	59,119,119
Vehicles	2,260,065	26,751	625,888	1,660,928
Land Improvements	5,518,242	47,283	-	5,565,525
Total Capital Assets Being Depreciated	218,487,960	11,480,862	5,330,889	224,637,933
Less: Accumulated Depreciation	136,985,676	4,251,978	5,329,780	135,907,874
Capital Assets, Net	<u>\$ 94,401,601</u>	<u>\$ 8,871,692</u>	<u>\$ 10,269,521</u>	<u>\$ 93,003,772</u>

Work in progress at April 30 consisted of the following projects:

	2019	2018
Biogas Co-Generation Replacement Project	\$ 156,264	\$ 153,360
Clarifier #9 Replacement	568,759	-
Building 043 MCC Replacement	68,227	-
Effluent Pump 02 and Driver	326,527	-
West Headworks Improvements	6,607,347	559,501
P2 and Primary Clarifier Restoration and Coating	-	494,793
Paint Booth	-	31,094
SE 36 Interceptor	-	94,472
Drying Bed Improvements	4,528	4,500
Total	<u>\$ 7,731,652</u>	<u>\$ 1,337,720</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 6 NOTES RECEIVABLE

Village of Oreana

The District financed the construction of a joint wastewater system for the Village of Oreana (the 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, 2019 and 2018, the Village owed \$3,184,636 and \$3,322,439, respectively. Following are the expected maturities on the notes receivable:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 137,803	\$ -	\$ 137,803
2021	137,803	-	137,803
2022	137,803	-	137,803
2023	137,803	-	137,803
2024	137,803	-	137,803
2025 - 2029	689,017	-	689,017
2030 - 2034	689,017	-	689,017
2035 - 2039	689,017	-	689,017
2040 - 2043	428,570	-	428,570
Total	<u>\$ 3,184,636</u>	<u>\$ -</u>	<u>\$ 3,184,636</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, 2019 and 2018, the Argenta Sanitary District owed \$4,807,556 and \$4,917,410, respectively. Following are the expected maturities on the notes receivable:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 116,376	\$ 59,740	\$ 176,116
2021	123,136	58,264	181,400
2022	130,138	56,704	186,842
2023	137,393	55,055	192,448
2024	144,907	53,314	198,221
2025 - 2029	846,926	189,515	1,036,441
2030 - 2034	1,057,079	177,930	1,235,009
2035 - 2039	1,153,018	108,667	1,261,685
2040 - 2044	1,098,583	34,557	1,133,140
Total	<u>\$ 4,807,556</u>	<u>\$ 793,746</u>	<u>\$ 5,601,302</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT

Notes Payable

The District has the following Illinois Environmental Protection Agency (IEPA) loans:

Hickory Point Bank Interceptor Project

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.

Ultra Violet Project

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.

2002 Rehabilitation Project

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.

Damon to Monroe Project

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.

Phase 2 – WWTP Project

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.

Odor Control Project

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.

2004 Rehabilitation Project

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.

Wyckles Forcemain Project I

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.

Oreana Collection System Project

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.

Wyckles Phase II Project

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.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Argenta Collection System Project

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.

Stevens Creek Interceptor Rehab Project

Note payable to the IEPA, for the Stevens Creek Interceptor Rehab project; interest at 1.250%; due in semi-annual installments in March and September of each year through 2031.

2011 Trestle Rehab Project

Note payable to the IEPA, for the 2011 Trestle Rehab project; interest at 1.250%; due in semi-annual installments in January and July of each year through 2032.

Primary Digester Upgrade

Note payable to the IEPA, for the Primary Digester Upgrade; interest at 1.930%; due in semi-annual installments in November and May each year through 2035.

Sludge Thickening System

Note payable to the IEPA, for the Sludge Thickening System; interest at 1.995%; due in semi-annual installments in November and May each year through 2036.

East Side Separation Rehabilitation

Note payable to the IEPA, for the East Side Separation Rehabilitation; interest at 2.210%; due in semi-annual installments each year through September 2035.

Odor Control Project – Phase II

Note payable to the IEPA, for the Odor Control Project – Phase II; interest at 2.210%; due in semi-annual installments each year through February 2036.

Southeast 36 Interceptor Project

Note payable to the IEPA, for the Southeast 36 Interceptor Project; interest at 1.760%; due in semi-annual installments each year through June 2038.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

The following is a summary of changes in notes payable for the year ended April 30, 2019:

	Principal Outstanding April 30, 2018	Issuances	Retirements	Principal Outstanding April 30, 2019	Current Portion
Ultra Violet Project	\$ 317,320	\$ -	\$ 124,535	\$ 192,785	\$ 127,712
2002 Rehabilitation Project	194,000	-	30,927	163,073	31,705
Damon to Monroe Project	1,093,290	-	158,377	934,913	162,362
Phase 2 – WWTP project	718,568	-	113,302	605,266	116,233
Odor Control Project	346,244	-	34,761	311,483	35,635
2004 Rehabilitation Project	714,784	-	84,154	630,630	86,271
Wyckles Forcemain Project I	525,479	-	42,038	483,441	42,038
Oreana Collection System Project	3,287,538	-	252,887	3,034,651	252,887
Wyckles Phase II Project	508,691	-	40,695	467,996	40,695
Argenta Collection System Project	4,231,325	-	278,371	3,952,954	140,492
Stevens Creek Interceptor Rehab Project	1,156,499	-	76,084	1,080,415	77,038
2011 Trestle Rehab Project	1,780,005	-	112,703	1,667,302	114,116
Primary Digester Upgrade	6,666,694	-	323,607	6,343,087	164,149
Sludge Thickening System	4,609,938	-	215,199	4,394,739	219,514
East Side Separation Rehabilitation	1,966,426	-	93,159	1,873,267	95,229
Odor Control Project – Phase II	3,341,598	-	153,013	3,188,585	156,413
West Head Works Improvement Project	-	3,361,296	-	3,361,296	-
SE 36 Interceptor Project	-	1,184,097	-	1,184,097	52,540
Total	<u>\$ 31,458,399</u>	<u>\$ 4,545,393</u>	<u>\$ 2,133,812</u>	<u>\$ 33,869,980</u>	<u>\$ 1,915,029</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

The following is a summary of changes in notes payable for the year ended April 30, 2018:

	Principal Outstanding April 30, 2017	Issuances	Retirements	Principal Outstanding April 30, 2018	Current Portion
Hickory Point West Interceptor Project	\$ 15,214	\$ -	\$ 15,214	\$ -	\$ -
Ultra Violet Project	438,757	-	121,437	317,320	124,535
2002 Rehabilitation Project	224,168	-	30,168	194,000	30,927
Damon to Monroe Project	1,247,781	-	154,491	1,093,290	158,377
Phase 2 – WWTP Project	829,013	-	110,445	718,568	113,302
Odor Control Project	380,152	-	33,908	346,244	34,761
2004 Rehabilitation Project	796,873	-	82,089	714,784	84,154
Wyckles Forcemain Project I	567,517	-	42,038	525,479	42,038
Oreana Collection System Project	3,540,425	-	252,887	3,287,538	252,887
Wyckles Phase II Project	549,386	-	40,695	508,691	40,695
Argenta Collection System Project	4,506,249	-	274,924	4,231,325	138,752
Stevens Creek Interceptor Rehab Project	1,231,641	-	75,142	1,156,499	76,084
2011 Trestle Rehab Project	1,891,313	-	111,308	1,780,005	112,703
Primary Digester Upgrade	6,984,144	-	317,450	6,666,694	161,026
Sludge Thickening System	4,812,755	1,014	203,831	4,609,938	215,200
East Side Separation Rehabilitation	2,057,560	-	91,134	1,966,426	93,159
Odor Control Project – Phase II	3,491,284	-	149,686	3,341,598	153,013
Total	<u>\$ 33,564,232</u>	<u>\$ 1,014</u>	<u>\$ 2,106,847</u>	<u>\$ 31,458,399</u>	<u>\$ 1,831,613</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT (CONTINUED)

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

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,915,029	\$ 404,063	\$ 2,319,092
2021	2,187,486	456,267	2,643,753
2022	2,157,217	420,638	2,577,855
2023	2,192,740	385,115	2,577,855
2024	2,218,618	348,858	2,567,476
2025 - 2029	9,521,523	1,281,501	10,803,024
2030 - 2034	7,889,296	593,356	8,482,652
2035 - 2039	2,426,775	66,743	2,493,518
Subtotal	30,508,684	3,956,541	34,465,225
Loan Draws to Date	3,361,296	-	3,361,296
Total	<u>\$ 33,869,980</u>	<u>\$ 3,956,541</u>	<u>\$ 37,826,521</u>

The District entered into a note payable agreement in June 2018 with the Illinois Environmental Protection Agency (IEPA) for the West Head Works Improvement Project in the amount of \$8,755,000. It carries an interest rate of 1.760%, the term of the loan is 20 years, and it requires semi-annual payments of principal and interest through January 2040. During the fiscal year ending April 30, 2019, the District made loan draws totaling \$3,361,296. The loan repayment schedule has not yet been issued by IEPA pending project completion.

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, 2019 and 2018, there was principal outstanding in the amount of \$539,670 and \$850,091, respectively.

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, 2019 and 2018, there was principal outstanding in the amount of \$674,633 and \$917,967, respectively.

	<u>Balance April 30, 2018</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance April 30, 2019</u>	<u>Current</u>
General Obligation Debt Certificates, Series 2013	\$ 850,091	\$ -	\$ 310,421	\$ 539,670	\$ 177,866
General Obligation Debt Certificates, Series 2015	917,967	-	243,334	674,633	249,579
Total	<u>\$ 1,768,058</u>	<u>\$ -</u>	<u>\$ 553,755</u>	<u>\$ 1,214,303</u>	<u>\$ 427,445</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 7 LONG-TERM DEBT (CONTINUED)

Debt Certificates (Continued)

	Balance			Balance	
	April 30, 2017	Issuances	Retirements	April 30, 2018	Current
General Obligation Debt Certificates, Series 2013	\$ 1,740,294	\$ -	\$ 890,203	\$ 850,091	\$ 310,421
General Obligation Debt Certificates, Series 2015	1,155,214	-	237,247	917,967	243,335
Total	<u>\$ 2,895,508</u>	<u>\$ -</u>	<u>\$ 1,127,450</u>	<u>\$ 1,768,058</u>	<u>\$ 553,756</u>

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

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 427,445	\$ 26,966	\$ 454,411
2021	295,442	20,199	315,641
2022	209,320	12,393	221,713
2023	41,060	7,611	48,671
2024	41,885	5,882	47,767
2025 - 2029	199,151	15,740	214,891
Total	<u>\$ 1,214,303</u>	<u>\$ 88,791</u>	<u>\$ 1,303,094</u>

NOTE 8 PENSION PLAN

IMRF Plan Description

The District's defined benefit pension plan for regular employees provides retirement and disability benefits, postretirement 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, 2019 AND 2018**

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

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

Employees Covered by Benefit Terms

As of December 31, 2018, 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	12
Active Plan Members	54
Total	153

Contributions

As set by statute, the District's Regular Plan Members are required to contribute 4 1/2% 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 years 2018 and 2017 was 11.49% and 13.83%, respectively. For the fiscal years 2019 and 2018, the District's required contribution was \$330,279 and \$468,076, respectively, to the plan and the District contributed \$330,279 and \$468,076, respectively. 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, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Net Pension Liability (Asset)

The District's net pension liability (asset) was measured as of December 31, 2018 and 2017. The total pension liability (asset) used to calculate the net pension liability (asset) 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 (asset) at December 31, 2018 and 2017:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Asset Valuation Method** used was Market Value of Assets.
- The **Inflation Rate** was assumed to be 2.50% for 2018 and 2017.
- **Salary Increases** were expected to be 3.39% to 14.25% for 2018 and 2017.
- The **Investment Rate of Return** was assumed to be 7.25% for 2018 and 7.50% for 2017.
- **Projected Retirement Age** was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2017 valuation pursuant to an experience study from years 2014 to 2016 for 2018 and 2017.
- The IMRF-specific rates for **Mortality** (for nondisabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience for 2018 and 2017.
- For **Disabled Retirees**, an IMRF-specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for nondisabled lives for 2018 and 2017.
- For Active Members, an IMRF-specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience for 2018 and 2017.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

- 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 for 2018:

<u>Asset Class</u>	<u>Portfolio Target Percentage</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	37.0 %	7.15%
International Equity	18.0	7.25%
Fixed Income	28.0	3.75%
Real Estate	9.0	6.25%
Alternative Investments	7.0	3.20 - 8.50%
Cash Equivalents	1.0	2.50%
Total	<u>100.0 %</u>	

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table for 2017:

<u>Asset Class</u>	<u>Portfolio Target Percentage</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	37.0 %	6.85%
International Equity	18.0	6.75%
Fixed Income	28.0	3.00%
Real Estate	9.0	5.75%
Alternative Investments	7.0	2.65 - 7.35%
Cash Equivalents	1.0	2.25%
Total	<u>100.0 %</u>	

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Single Discount Rate

A Single Discount Rate of 7.25% in 2018 and 7.50% in 2017 was used to measure the total pension liability (asset). 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 7.25% for 2018 and 7.50% for 2017, the municipal bond rate is 3.71% for 2018 and 3.31% for 2017, and the resulting single discount rate is 7.25% for 2018 and 7.50% for 2017.

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (Asset) (A) - (B)
Balance at December 31, 2017	\$ 32,815,630	\$ 35,747,964	\$ (2,932,334)
Changes:			
Service Cost	356,865	-	356,865
Interest on the Total Pension Liability	2,399,846	-	2,399,846
Differences Between Expected and Actual Experience of the Total Pension Liability	222,709	-	222,709
Changes of Assumptions	873,407	-	873,407
Contributions - Employer	-	416,920	(416,920)
Contributions - Employees	-	173,474	(173,474)
Net Investment Income	-	2,646,978	(2,646,978)
Difference Between Projected and and Actual Investment Income	-	(4,467,887)	4,467,887
Benefit Payments, Including Refunds of Employee Contributions	(1,995,482)	(1,995,482)	-
Other (Net Transfer)	-	(35,506)	35,506
Net Changes	<u>1,857,345</u>	<u>(3,261,503)</u>	<u>5,118,848</u>
Balance at December 31, 2018	<u>\$ 34,672,975</u>	<u>\$ 32,486,461</u>	<u>\$ 2,186,514</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability (Asset) (Continued)

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balance at December 31, 2016	\$ 32,800,202	\$ 29,950,459	\$ 2,849,743
Changes:			
Service Cost	366,524	-	366,524
Interest on the Total Pension Liability	2,401,678	-	2,401,678
Differences Between Expected and Actual Experience of the Total Pension Liability	102,447	-	102,447
Changes of Assumptions	(933,051)	-	(933,051)
Contributions - Employer	-	2,455,889	(2,455,889)
Contributions - Employees	-	162,768	(162,768)
Net Investment Income	-	2,251,660	(2,251,660)
Difference Between Projected and and Actual Investment Income	-	2,876,980	(2,876,980)
Benefit Payments, Including Refunds of Employee Contributions	(1,922,170)	(1,922,170)	-
Other (Net Transfer)	-	(27,622)	27,622
Net Changes	<u>15,428</u>	<u>5,797,505</u>	<u>(5,782,077)</u>
Balance at December 31, 2017	<u>\$ 32,815,630</u>	<u>\$ 35,747,964</u>	<u>\$ (2,932,334)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the plan's net pension liability (asset), calculated using a Single Discount Rate of 7.25%, as well as what the plan's net pension liability (asset) would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher for 2018:

	One Percent Lower (6.25%)	Current Discount (7.25%)	One Percent Higher (8.25%)
Net Pension Liability (Asset)	<u>\$ 6,177,692</u>	<u>\$ 2,186,514</u>	<u>\$ (1,170,125)</u>

The following presents the plan's net pension liability (asset), calculated using a Single Discount Rate of 7.50%, as well as what the plan's net pension liability (asset) would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher for 2017:

	One Percent Lower (6.50%)	Current Discount (7.50%)	One Percent Higher (8.50%)
Net Pension Liability (Asset)	<u>\$ 834,097</u>	<u>\$ (2,932,334)</u>	<u>\$ (6,088,944)</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

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

For the years ended April 30, 2019 and 2018, the District recognized pension expense (income) of \$644,168 and \$(115,782), respectively. At April 30, 2019, 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 Changes of Assumptions	\$ 212,156	\$ 26,461
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	641,937	463,643
	2,123,759	-
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	2,977,852	490,104
 <i>Pension Contributions Made Subsequent to the Measurement Date</i>	 45,125	 -
Total Deferred Amounts Related to Pensions	<u>\$ 3,022,977</u>	<u>\$ 490,104</u>

\$45,125 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, 2020.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

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

At April 30, 2018, 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 Changes of Assumptions	\$ 127,578	\$ 61,010
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	7,612	738,436
	<u>-</u>	<u>1,739,595</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	135,190	2,539,041
 <i>Pension Contributions Made Subsequent to the Measurement Date</i>	 <u>131,790</u>	 <u>-</u>
Total Deferred Amounts Related to Pensions	<u>\$ 266,980</u>	<u>\$ 2,539,041</u>

\$131,790 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date was recognized as a reduction of the net pension liability (asset) in the year ended April 30, 2019.

The net amount reported as deferred outflows of resources and deferred inflows of resources related to pensions as of April 30, 2019, prior to contributions subsequent to measurement date, will be recognized in pension expense in future periods as follows:

<u>Year Ending April 30,</u>	<u>Net Deferred Outflows of Resources</u>
2020	\$ 627,545
2021	423,803
2022	542,821
2023	893,579
Total	<u>\$ 2,487,748</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to providing the pension benefits described in Note 8, the District provides limited postemployment health care benefits (OPEB) for its eligible retired employees through a single employer defined benefit plan (Retiree Healthcare Program). The benefits, benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report.

Eligibility

Employees are eligible to retire from the District and continue their health coverage after meeting the age and service requirements for retirement, as follows:

Retiree must be at least age 55 with a minimum of 20 years of service (10 years of service if hired prior to January 1, 2007) at retirement. An employee that retires using the IMRF early retirement may be 50 years of age.

This program is only available to those who were hired prior to January 1, 2007 and who retire by December 31, 2021.

Benefits Provided

The District provides limited health care coverage at the active employee rate to all eligible employees in accordance with Illinois statutes, which creates an implicit subsidy of retiree health care coverage. To be eligible for benefits, an employee must qualify for retirement under one of the District's retirement plan. Upon a retiree reaching 65 years of age, Medicare becomes the primary insurer.

Membership

Membership in the plan as of April 30, 2019 consisted of:

Active Employees	52
Inactive Employees Currently Receiving Benefits	20
Inactive Employees Entitled To But Not Yet Receiving Benefit Payments	0
Total	<u><u>72</u></u>

Funding Policy

Retirees and beneficiaries electing coverage pay 100% of the premium to the District in accordance with rates set by the District. The plan is financed on a pay-as-you-go basis. The District's Annual Contribution Rate has been determined through the use of an actuary. There have been no OPEB contributions by either the District or employees to date. As such, there are no plan assets.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Total OPEB Liability

The District's total OPEB liability was determined for fiscal year ending April 30, 2019, using April 30, 2019 as the measurement date by an actuarial valuation as of May 1, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the April 30, 2019 (measurement date), actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50% Per Year
Salary Increases	2.50% Plus Merit and Longevity Increases
Healthcare Cost Trend Rates	7.1% for 2019, Decreasing 0.23% Annually to an Ultimate Rate of 5.0% for 2028 and Later Years

Mortality rates were based on the Sex Distinct Raw Rates as developed in the RP-2014 Study, with Blue Collar Adjustment. These rates are improved generationally using the MP-2016 Improvement Rates.

Discount Rate

Under GASB 75, the discount rate used in valuing OPEB liabilities for unfunded plans as of the Measurement Date must be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The discount rate was 3.79% as of April 30, 2019, for accounting disclosures purposes.

Changes in Total OPEB Liability

	Total OPEB Liability (A)
Balance at April 30, 2018	<u>\$ 1,633,734</u>
Changes:	
Service Cost	34,800
Interest on the Total OPEB Liability	61,269
Changes of Assumptions	16,353
Benefit Payments from Trust	<u>(180,711)</u>
Net Changes	<u>(68,289)</u>
Balance at April 30, 2019	<u><u>\$ 1,565,445</u></u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity Analysis

The following presents the total OPEB liability of the District using the discount rate of 3.79%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.79%) or one-percentage-point higher (4.79%) than the current discount rate:

	One Percent Lower (2.79%)	Current Discount (3.79%)	One Percent Higher (4.79%)
Total OPEB Liability	\$ 1,665,489	\$ 1,565,445	\$ 1,478,731

The following presents the total OPEB liability, calculated using the current healthcare cost trend rates as well as what the total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates:

	One Percent Lower (Varies)	Current Discount (Varies)	One Percent Higher (Varies)
Total OPEB Liability	\$ 1,468,488	\$ 1,565,445	\$ 1,676,549

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended April 30, 2019, the District recognized OPEB expense of \$97,723. At April 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Deferred Amounts Related to OPEB</u>		
<i>Deferred Amounts to be Recognized in OPEB Expense in Future Periods:</i>		
Changes of Assumptions	\$ 14,700	\$ -
Total Deferred Amounts to be Recognized in OPEB Expense in Future Periods	\$ 14,700	\$ -

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending April 30,	Deferred Outflows of Resources
2020	\$ 1,653
2021	1,653
2022	1,653
2023	1,653
2024	1,653
Thereafter	6,435
Total	\$ 14,700

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, 2019, the District had various contracts for construction projects and engineering projects at varying stages of completion with outstanding commitments totaling approximately \$6,211,163. The District is obligated to pay the costs under these contracts as the work is completed.

Subsequent to year-end 2019, the District entered into various contracts for projects and capital purchases with commitments totaling approximately \$227,199. The District is obligated to pay the costs under these contracts as the work is completed.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019 AND 2018**

NOTE 12 RESTATEMENT OF NET POSITION

The District adopted a new accounting standard to conform with generally accepted accounting principles. The statement adopted was Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This pronouncement required the restatement of the April 30, 2018 net position as shown below.

Net Position, April 30, 2018, As Previously Reported	\$ 110,787,473
Adjustment for Total OPEB Liability, GASB 75	(1,633,734)
Removal of OPEB Asset Under Old Standard	<u>(534,971)</u>
Net Position, April 30, 2018, As Restated	<u><u>\$ 108,618,768</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Fiscal Year Ended April 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a Percentage of Covered Valuation Payroll
2019	\$ 330,279	\$ 330,279	\$ -	\$ 3,638,786	9.08%
2018	\$ 468,076	\$ 468,076	\$ -	\$ 3,578,565	13.08%
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%

Note 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.

SANITARY DISTRICT OF DECATUR
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
ILLINOIS MUNICIPAL RETIREMENT FUND
(UNAUDITED)

Calendar Year Ended December 31,	2018	2017	2016	2015
TOTAL PENSION LIABILITY				
Service Cost	\$ 356,865	\$ 366,524	\$ 360,112	\$ 408,884
Interest	2,399,846	2,401,678	2,350,315	2,272,329
Changes in Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	222,709	102,447	(130,108)	246,402
Changes of Assumptions	873,407	(933,051)	(109,165)	35,988
Benefit Payments, Including Refunds of Employee Contributions	(1,995,482)	(1,922,170)	(1,908,569)	(1,800,538)
Net Change in Total Pension Liability	1,857,345	15,428	562,585	1,163,065
Total Pension Liability - Beginning	<u>32,815,630</u>	<u>32,800,202</u>	<u>32,237,617</u>	<u>31,074,552</u>
Total Pension Liability - Ending	34,672,975	32,815,630	32,800,202	32,237,617
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	416,920	2,455,889	1,710,406	878,601
Contributions - Employee	173,474	162,768	153,085	165,740
Net Investment Income	(1,820,909)	5,128,640	2,154,331	574,993
Benefit Payments, Including Refunds of Employee Contributions	(1,995,482)	(1,922,170)	(1,908,569)	(1,800,538)
Other	(35,506)	(27,622)	(28,670)	(80,906)
Net Change in Plan Fiduciary Net Position	(3,261,503)	5,797,505	2,080,583	(262,110)
Plan Fiduciary Net Position - Beginning	<u>35,747,964</u>	<u>29,950,459</u>	<u>27,869,876</u>	<u>28,131,986</u>
Plan Fiduciary Net Position - Ending	<u>32,486,461</u>	<u>35,747,964</u>	<u>29,950,459</u>	<u>27,869,876</u>
NET PENSION LIABILITY (ASSET) - ENDING	<u><u>\$ 2,186,514</u></u>	<u><u>\$ (2,932,334)</u></u>	<u><u>\$ 2,849,743</u></u>	<u><u>\$ 4,367,741</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	93.69%	108.94%	91.31%	86.45%
Covered Payroll	\$ 3,628,766	\$ 3,542,223	\$ 3,401,867	\$ 3,632,546
District's Net Pension Liability (Asset) as a Percentage of Covered Payroll	60.26%	-82.78%	83.77%	120.24%

Note 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 Statements.

SANITARY DISTRICT OF DECATUR
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)

Calendar Year Ended April 30, TOTAL OPEB LIABILITY	2019
Service Cost	\$ 34,800
Interest	61,269
Changes of Assumptions	16,353
Benefit Payments	(180,711)
Net Change in Total OPEB Liability	(68,289)
Total OPEB Liability - Beginning	1,633,734
Total OPEB Liability - Ending	\$ 1,565,445
Covered Employee Payroll	\$ 3,416,598
Total OPEB Liability as a Percentage of Covered Employee Payroll	45.82%

Note 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.

No assets are accumulated in a trust to pay related benefits.

There were no changes in assumptions or benefit terms in the actuarial valuation.

**SANITARY DISTRICT OF DECATUR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
APRIL 30, 2019 AND 2018**

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2018 Contribution Rate*

Valuation Date: 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 2018 Contribution Rates

Actuarial Cost Method: Aggregate entry age normal
Amortization Method: Level percentage of payroll, closed
Remaining Amortization Period:
Nontaxing bodies: 10-year rolling period
Taxing bodies (Regular, SLEP, and ECO groups):
25-year closed period
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 20 years for most employers (two employers were financed over 30 years).
Asset Valuation Method: Five-year smoothed market; 20% corridor
Wage Growth: 3.50%
Price Inflation: 2.75%, approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases: 3.75% to 14.50%, including inflation
Investment Rate of Return: 7.50%
Retirement Age: 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.
Mortality: For nondisabled 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 nondisabled 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

There were no benefit changes during the year.

* Based on Valuation Assumptions used in the December 31, 2016, actuarial valuation; note two-year lag between valuation and rate setting.

**SANITARY DISTRICT OF DECATUR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
APRIL 30, 2019 AND 2018**

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2017

Contribution Rate*

Valuation Date: 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 2017 Contribution Rates

Actuarial Cost Method: Aggregate entry age normal
Amortization Method: Level percentage of payroll, closed
Remaining Amortization Period:
Nontaxing bodies: 10-year rolling period
Taxing bodies (Regular, SLEP, and ECO groups):
26-year closed period
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 21 years for most employers (two employers were financed over 30 years).
Asset Valuation Method: Five-year smoothed market; 20% corridor
Wage Growth: 3.50%
Price Inflation: 2.75%, approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases: 3.75% to 14.50%, including inflation
Investment Rate of Return: 7.50%
Retirement Age: 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.
Mortality: For nondisabled 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 nondisabled 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

There were no benefit changes during the year.

* Based on Valuation Assumptions used in the December 31, 2015, 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, 2019, 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 23, 2019.

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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

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 questioned costs. 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.



CliftonLarsonAllen LLP

Champaign, Illinois
August 23, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL
OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect Sanitary District of Decatur's major federal program for the year ended April 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 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 each of its major federal program for the year ended April 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2019-002. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of 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 the 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 the Uniform Guidance, 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 a 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-002, 2019-003, and 2019-004, which we consider to be significant deficiencies.

Board of Trustees
Sanitary District of Decatur

Sanitary District of Decatur's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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 results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 23, 2019

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Environmental Protection Agency Passed-Through the Illinois Environmental Protection Agency: Capitalization Grants for Clean Water State Revolving Funds	66.458	L17-4647	\$ -	\$ 1,840,136

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SANITARY DISTRICT OF DECATUR
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2019**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended April 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified opinion

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes No

Type of auditors’ report issued on compliance for major federal programs: unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? 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: \$750,000

Auditee qualified as low-risk auditee? Yes No

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

Section II – Financial Statement Findings

FINDING NO. 2019-001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

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 the related footnote disclosures to ensure they are complete and presented in accordance with U.S. generally accepted accounting principles (GAAP), including all adjustments required to convert the cash basis records to accrual basis.

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 GAAP.

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

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.

Repeat Finding: Repeat of finding 2018-001 from the fiscal year 2018 audit.

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

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

Views of Responsible Officials and Planned Corrective Action: The District recognizes and accepts the audit finding as presented. 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. Management accepts responsibility for the financial statements.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

District Official Responsible: Executive Director/CFO

Expected Completion: The plan is ongoing.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs

FINDING NO. 2019-002

Federal Agency: U.S. Environmental Protection Agency

Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds

CFDA Number: 66.458

Pass-through Number: L17-4647

Award Period: Fiscal year ending April 30, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance
Other Matter--Compliance

Condition: The District does not have a written Conflict of Interest policy.

Criteria: Per Code of Federal Regulations (2 CFR 200.318), non-Federal entities must maintain written standards of conduct covering conflicts of interest and governing actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest.

Context: The District does not have a written Conflict of Interest policy.

Effect: The potential exists to award a contract supported by a Federal award subject to a real or apparent conflict of interest.

Cause: The District follows statutory requirements and includes proper language in its contracts, but was unaware of the requirement for a written policy.

Recommendation: We recommend the District implement a written conflict of interest policy.

Views of Responsible Officials and Planned Corrective Action: The District recognizes and accepts the audit finding as presented. Management has informed us that they will be adopting a written policy to address the conflict of interest issues.

District Official Responsible: Executive Director/CFO

Expected Completion: November 30, 2019

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

FINDING NO. 2019-003

Federal Agency: U.S. Environmental Protection Agency

Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds

CFDA Number: 66.458

Pass-through Number: L17-4647

Award Period: Fiscal year ending April 30, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: District policy requires the Board President or Vice President to approve disbursements over \$10,000.

Condition: In our testing, we noted one invoice over \$10,000 from a construction contractor did not have documentation of the President or Vice President's review on the check stub, as is required by District policy.

Questioned Costs: None.

Context: The President or Vice President's review of one disbursement out of seven tested in our statistically valid sample was not documented.

Cause: Documentation of review was not maintained for one invoice.

Effect: Unallowable or inaccurate expenditures can occur without proper review procedures.

Repeat Finding: No.

Recommendation: We recommend that management monitor disbursements for adherence to review procedures required by District policy.

Views of Responsible Officials and Planned Corrective Action: The District recognizes and accepts the audit finding as presented. Management has informed us that they have retrained the accounting staff to review each invoice that is required to be signed before filing to ensure the invoice was actually signed.

District Official Responsible: Executive Director/CFO

Expected Completion: July 31, 2019

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

FINDING NO. 2019-004

Federal Agency: U.S. Environmental Protection Agency

Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds

CFDA Number: 66.458

Pass-through Number: L17-4647

Award Period: Fiscal year ending April 30, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: Good internal control procedures include a detailed review of reimbursement requests to ensure accuracy of all documents.

Condition: In our testing, we noted two reimbursement requests that did not agree to the sum of the invoices submitted for reimbursement.

Questioned Costs: None.

Context: The amount reported on the Request for Loan Disbursement form in two of three tested in our test of the entire population of Request for Loan Disbursements did not agree to the sum of the invoices submitted for reimbursement. However, the error was found by IEPA and the total reimbursements were correct.

Cause: An oversight in the process of reviewing payment requests.

Effect: Incorrect reimbursement of expenditures.

Repeat Finding: No.

Recommendation: Management should strengthen the review over loan reimbursement requests.

**SANITARY DISTRICT OF DECATUR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 30, 2019**

**Views of Responsible Officials
and Planned Corrective Action:**

The District recognizes and accepts the audit finding as presented. Management has informed us that the submittal of Request for Loan Disbursement had been outsourced to a third party. The District was only conducting a cursory review based on the assumption that the request had received multiple reviews by the third party. The person who was preparing the Request for Loan Disbursement was new to the position and the funding for this project was more complicated than normal for the District with multiple funding sources. When the District became aware of the situation the third party person responsible for the erroneous requests was replaced with an experienced employee and the District implemented additional review protocols.

District Official Responsible: Executive Director/CFO

Expected Completion: July 31, 2019