FOX METRO WATER RECLAMATION DISTRICT OSWEGO, ILLINOIS

ANNUAL FINANCIAL REPORT

For the Years Ended May 31, 2018 and 2017

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FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fox Metro Water Reclamation District
Oswego, Illinois

We have audited the accompanying financial statements of the Fox Metro Water Reclamation District (the District), as of and for the years ended May 31, 2018 and 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Fox Metro Water Reclamation District, as of May 31, 2018 and 2017, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 11, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established standards for measuring and recognizing liabilities, deferred inflows and outflows of resources and expenses, modified certain disclosures in the notes to financial statements; and the required supplementary information as discussed in Note 11. The data for the May 31, 2017 fiscal year end was not restated as the required information was not available. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information as listed in the table of contents 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental schedules and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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 audits 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 supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplemental information as listed in the table of contents has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Sikich LLP

Naperville, Illinois
November 2, 2018

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

Management's Discussion and Analysis

The management of Fox Metro Water Reclamation District (District) offer readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended May 31, 2018 and 2017.

Financial Highlights

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $188,289,755 and $181,232,863, respectively, (net position) at the close of the 2018 and 2017 fiscal years. Of this amount, $28,926,849 and $34,906,398, respectively, is unrestricted and available to meet ongoing and future obligations of the District, including its share of capital projects.

Net position increased by $7,056,892 and $9,502,865, respectively. The unrestricted portion increased (decreased) by $(5,979,549) and $5,384,424, respectively, while the net investment in capital assets portion increased (decreased) by $13,045,334 and $3,983,660, respectively.

In 2018, the District's prior year net position was restated by $7,243,792 from $181,232,863 to $173,989,071 due to the change in accounting principle from the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* A significant impact of this accounting principle is the appearance of the total OPEB liability and pension items on the Statements of Net Position.

Operating income (loss) for the 2018 and 2017 fiscal years were $13,067,867 and $8,958,532, respectively.

Operating income (loss) for the 2018 and 2017 fiscal years were increased by net non-operating revenues (expenses) $1,232,817 and of $544,333, respectively.

The resulting changes in net position for fiscal years 2018 and 2017 were $14,300,684 and $9,502,865, respectively.

Basic Financial Statements

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The District is reported under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used. Revenues are recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. These are followed by notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information and certain supplemental schedules and information that are useful in understanding the overall operations of the District.

The statement of net position presents information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position reports the operating revenues and expenses and non-operating revenue and expenses of the District for the fiscal year with the difference - the income or loss before contributions - being combined with any capital contributions to determine the net change in position for the fiscal year. That change combined with last year-end net position total reconciles to the net position total at the end of this fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year. Contrary to the other basic financial statements, this statement is prepared on a cash basis.

Financial Information

Net Position: The following schedule presents a summary of net position comparisons for the fiscal years ended May 31, 2018, 2017 and 2016 (amounts in thousands).

	May 31, 2018	May 31, 2017	Increase (Decrease)	May 31, 2016	Increase (Decrease)
Current assets	$ 53,684	$ 55,518	$ (1,834)	$ 43,508	$ 12,010
Capital assets	282,354	231,959	50,895	194,642	37,317
Total assets	336,538	287,477	49,061	238,150	49,327
Pension Items	835	2,147	(1,312)	2,568	(421)
Total deferred outflows of resources	835	2,147	(1,312)	2,568	(421)
Total assets and deferred outflows of resources	336,873	289,624	47,249	240,718	48,906
Current liabilities	10,911	13,579	(2,668)	7,714	5,865
Long-term liabilities	131,766	94,641	37,125	61,274	33,367
Total liabilities	142,677	108,220	34,457	68,988	39,232
Pension Items	5,906	171	5,735	-	171
Total deferred inflows of resources	5,906	171	5,735	-	171
Total liabilities and deferred inflows of resources	148,583	108,391	40,192	68,988	39,403
Net position					
Net investment in capital assets	155,924	142,878	13,046	138,895	3,983
Restricted	3,439	3,448	(9)	3,313	135
Unrestricted	28,927	34,907	(5,980)	29,522	5,385
Total net position	$ 188,290	$ 181,233	$ 7,057	$ 171,730	$ 9,503

(See independent auditor's report.)

The District enjoys a very healthy quick ratio (cash and investments/current liabilities) of 2.95, 2.72, and 3.76, respectively, providing the District with the liquid resources necessary to meet its foreseen and unforeseen operating requirements.

Restricted assets and liabilities payable from restricted assets relate to the District's requirement by the revenue bond covenants to set aside a certain amount of assets for future debt service and capital asset repair and replacement, offset by liabilities payable from said restricted assets.

The largest portion of the District's net position, $155,923,803, $142,878,469, and $138,894,809, respectively, is net investment in capital assets (e.g., land, buildings, equipment, infrastructure, and improvements). Outstanding debt attributable to these capital assets, primarily Illinois Environmental Protection Agency loans, are deducted from the net book value of capital assets to calculate these figures.

Restricted net position represent outside legal restrictions on the remainder of the net position of the District. The restricted net position of $3,439,103 and $3,447,996, $3,313,215, respectively, are restricted for use by the revenue bond covenants.

Most of the remaining unrestricted net position of $28,926,849, $34,906,398 and $29,521,974, respectively, represent resources available to meet both the District's current and capital obligations. This category increased (decreased) (17.13%), 18.24% and 2.89%, respectively from the prior year amount. One primary use of these net positions is to provide for the District's share of capital project costs, which are expected to total approximately $163,998,000 over the next five (5) years.

Revenue, expenses and changes in net position. The following schedule presents a summary of revenues, expenses, and changes in net position for the fiscal years ended May 31, 2018, 2017 and 2016 (amounts in thousands).

	May 31, 2018	May 31, 2017	Increase (Decrease)	May 31, 2016	Increase (Decrease)
Operating revenues					
Wastewater treatment (user) charges	$ 40,807	$ 38,548	$ 2,259	$ 36,486	$ 2,062
Connection fees	1,621	2,364	(743)	2,301	63
Sewer TV inspection charges	23	11	12	21	(10)
Other operating revenues	264	230	34	125	105
Total operating revenues	42,715	41,153	1,562	38,933	2,220
Operating expenses					
Operations	14,860	17,978	(3,118)	15,998	1,980
Administration	6,561	6,032	529	6,041	(9)
Depreciation	8,226	8,184	42	8,031	153
Total operating expenses	29,647	32,194	(2,547)	30,070	2,124
Operating income (loss)	13,068	8,959	4,109	8,863	(917)
Nonoperating revenues (expenses)					
Investment income	359	170	189	109	61
Replacement taxes	379	398	(19)	313	85
Annexation and related fees	229	20	209	118	(98)
Other nonoperating revenues	1,315	1,081	234	1,182	(101)
Interest expense and fiscal charges	(1,050)	(1,125)	75	(1,220)	95
Gain on sale of capital assets	-	-	-	21	21
Total nonoperating revenues (expenses)	1,232	544	688	523	412
Change in net position	$ 14,300	$ 9,503	$ 4,797	$ 9,386	$ 117

Operating revenues represent exchange transactions with the constituents of the District for treatment of wastewater. The District provides these services to the communities of Aurora, North Aurora, Montgomery, Oswego and Sugar Grove as well as unincorporated areas of DuPage, Kane, Kendall and Will counties. Primary operating revenues are wastewater treatment charges to the approximately 82,339 users in the communities and unincorporated areas served by the District. The District is responsible for the collection (from the lift station to the treatment plant) and treatment of wastewater in these areas with the communities being responsible for the collector lines from the point of usage to the lift station. The number of users increased by 865 and by 181 from 2016 to 2017 and from 2015 to 2016, respectively, and has increased on average 0.458% over the last five years. The number of users is anticipated to grow by 4% in total over the next ten years due to the lack of growth occurring in most areas served by the District. User fees are generally calculated based on water consumption. The current user rates per one thousand gallons are $5.97, $5.71 and $5.44 for 2017, 2016 and 2015, respectively. The District has the ability to set its own user fees based on operating, capital, and cash flow needs of the District.

This past year, wastewater treatment charges increased $2,258,511 or about 5.86% over last year. Other operating revenue sources decreased $696,380.

Operating expenses are those expenses directly resulting from providing services to our constituents. The District's operating expenses are grouped into three primary categories; operations, administration, and depreciation. Operations include salaries and employee benefits exclusive of administrative personnel salaries, utilities, supplies, maintenance, engineering fees, and other costs; administration includes administrative personnel salaries and employee benefits insurance, professional services, office supplies, and other costs; depreciation results from allocating the cost of the capital assets used to provide services over the assets respective useful lives. Operating expenses decreased by $2,547,204 or 7% from 2017 and increased by $2,124,563 or 7% from 2016.

Overall the District reported an operating income of $13,067,867, $8,958,532 and $8,863,187, for fiscal 2018, 2017 and 2016, respectively. The operating income in 2018 is mainly attributed to wastewater treatment charges. Expenses have decreased while revenue increased. The operating income is attributed to management's efforts to build fund balance in order to support the construction of the South Plant and additional maintenance efforts on the existing plant. This project is directly related to unfunded EPA mandates and to cover the total operating costs of these new facilities when they come online. Construction costs were initially expected to be in the $110 million dollar range according to engineer estimates.

Non-operating revenues and expenses represent those revenues and expense that are 1) incidental to providing services, or 2) one time revenues not correlated to user fees. Net non-operating revenues (expenses) for fiscal years 2018, 2017 and 2016 totaled $1,232,817, $544,333 and $523,210, respectively, and are comprised primarily of annexation and related fees. These fees are comprised of two components, 1) annexation fees and 2) infrastructure participation fees. The primary non-operating expenses are interest costs on the District's outstanding debt obligations and intergovernmental reimbursements.

Overall, net position for fiscal 2018, 2017 and 2016 increased (decreased) by $7,056,892, $9,502,865 and $5,181,056, respectively.

Capital Assets. Capital assets are defined by the District as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of one year. Such assets are stated at cost or at estimated historical cost for purchased or constructed capital assets and at fair value for contributed capital assets. The following table summarizes the capital asset activity of the District. Additional information regarding the capital asset activity can be found in Note 4.

	Beginning Balance June 1	Additions	Retirements	Ending Balance May 31
2018				
Total capital assets not being depreciated	$ 62,407,419	$ 57,478,933	$ 13,375,657	$ 62,407,419
Total capital assets being depreciated	309,759,582	14,517,892	2,713,603	321,563,871
Total accumulated depreciation	140,208,360	8,226,151	2,713,603	145,720,908
Total capital assets being depreciated, net	169,551,222	(6,291,741)	-	175,842,963
CAPITAL ASSETS, NET	$ 231,958,641	$ 63,770,674	$ 13,375,657	$ 282,353,658
2017				
Total capital assets not being depreciated	$ 24,166,013	$ 44,986,250	$ 6,744,844	$ 62,407,419
Total capital assets being depreciated	302,499,987	7,259,595	-	309,759,582
Total accumulated depreciation	132,023,566	8,184,794	-	140,208,360
Total capital assets being depreciated, net	170,476,421	(925,199)	-	169,551,222
CAPITAL ASSETS, NET	$ 194,642,434	$ 44,061,051	$ 6,744,844	$ 231,958,641
2016				
Total capital assets not being depreciated	$ 15,586,852	$ 10,820,174	$ 2,241,013	$ 24,166,013
Total capital assets being depreciated	296,409,334	6,114,941	24,288	302,499,987
Total accumulated depreciation	124,016,613	8,031,241	24,288	132,023,566
Total capital assets being depreciated, net	172,392,721	(1,961,300)	-	170,476,421
CAPITAL ASSETS, NET	$ 187,979,573	$ 8,903,874	$ 2,241,013	$ 194,642,434

The capital assets are comprised primarily of the treatment facility located in Montgomery, Illinois along the Fox River and transmission lines and lift stations. The current treatment plant is approximately 90 years old and meets all current EPA requirements. It has an overall capacity of 42 MGD, of which average daily usage is 32.9 MGD and peak daily usage is 85 MGD. This provides the District with 54 MGD of excess capacity which is projected to accommodate the increased rain-event flows from combined sewers in the City of Aurora. Anticipated future growth is projected to increase demand to 52 MGD, which will require expansion of the existing treatment facility, construction of an additional treatment facility, or both in order to meet the growing constituent base and new EPA standards. The District maintains approximately 240 miles of collections systems and 11 lift stations.

Long-term debt. The District has the ability to issue long-term debt to finance the construction, acquisition and replacement of capital assets used in the District's operations as well as to provide short term cash flow financing for operations, if necessary. The District's debt is comprised of six IEPA loans. The District has an AA bond rating from (Moody's/Standard and Poor's). The IEPA loans are low interest loans funded through the Illinois IEPA revolving loan fund. Additional information regarding the long-term debt of the District can be found in Note 6.

Other Financial Information

The District has the ability under Illinois Compiled Statues (ILCS) to adopt a property tax levy for certain costs as well as for debt service, with approval from the voters, as the District is considered a tax capped entity. The District has not levied for property taxes in over thirty years, instead relying on user fees and non-operating revenues to cover the costs of providing services to the constituents.

The full time employees and certain part time employees of the District are covered by the Illinois Municipal Retirement Fund, an agent multiple employer pension plan. The funded status of the plan as of December 31, 2017, 2016 and 2015 (latest information available) was 98.60%, 85.67% and 84.75%, respectively.

Economic Factors and Future Rates

Fox Metro is the third largest water reclamation district in the state. In September 2016 the District competitively bid an approximately $110 million dollar project in order to comply with the new standards and maintain growth capacity for the district's service area. The result of this process is; River City Construction LLC of East Peoria was awarded the contract for the South Wastewater Treatment Facility Improvements with a winning bid of $87,927,000. 4 bids were received ranging from a low of $87,927,000 to a high bid of $91,290,165.31. The complimentary portion of the project is the Wabaunsee Interceptor River Crossing. This is a complex underground project that is necessary to bring flow from existing infrastructure into the new plant. The winning bid for this project is from Steve Spiess Construction Inc. for $5,426,942. Four bids were received for this project ranging from $5,426,942 to $7,978,210. Permitting and mobilization on these projects began in January 2016. The River Crossing Project was completed shortly after the close of fiscal year 2017.

Requests for Information. The financial report is intended to provide an overview of the finances of the Fox Metro Water Reclamation District for those with an interest in this organization. Questions concerning any information contained in this report may be directed to Mr. Jimmie Delgado, Business Services Manager, 682 Route 31, Oswego, Illinois 60543.

BASIC FINANCIAL STATEMENTS

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

STATEMENTS OF NET POSITION

May 31, 2018 and 2017

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 402,063	$ 3,921,040
Investments	28,391,685	29,502,286
Restricted assets		
Investments	3,439,103	3,447,996
Receivables		
Accounts (net of allowance for uncollectible accounts)	2,168,232	1,984,021
Unbilled user fee revenue	6,160,248	5,332,474
Interest	52,602	94,491
IEPA revolving loan receivable	11,979,542	10,604,760
Due from other governments	902,687	488,125
Prepaid expenses		
Insurance	187,905	142,937
Total current assets	53,684,067	55,518,130
NONCURRENT ASSETS		
Capital assets not being depreciated	106,510,695	62,407,419
Capital assets being depreciated, net of accumulated depreciation	175,842,963	169,551,222
Total net capital assets	282,353,658	231,958,641
Total assets	336,037,725	287,476,771
DEFERRED OUTFLOWS OF RESOURCES		
IMRF pension items	455,686	2,147,422
OPEB pension items	379,686	-
Total deferred outflows of resources	835,372	2,147,422
Total assets and deferred outflows of resources	336,873,097	289,624,193

(This statement is continued on the following page.)

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

STATEMENTS OF NET POSITION (Continued)

May 31, 2018 and 2017

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,908,533	$ 5,736,690
Construction retainage payable	4,290,712	4,152,558
Wages payable	252,731	234,785
Accrued vacation and sick pay, current portion	216,820	213,748
Claims liability	183,358	226,584
Unearned revenues	165,402	178,902
Due to other governments, current portion	206,584	199,312
Accrued interest	45,633	51,212
Current portion of long-term debt	2,641,206	2,584,871
Total current liabilities	10,910,979	13,578,662
LONG-TERM LIABILITIES		
Accrued vacation and sick pay, net of current portion	867,280	854,991
Water pollution control revolving fund notes payable, net of current portion	118,139,964	80,647,304
Due to other governments, net of current portion	5,442,101	5,648,685
Net pension liability	611,154	6,204,055
Other postemployment benefits obligation	-	1,286,413
Total OPEB liability	6,705,982	-
Total long-term liabilities	131,766,481	94,641,448
Total liabilities	142,677,460	108,220,110
DEFERRED INFLOWS OF RESOURCES		
IMRF pension items	3,425,701	171,220
OPEB pension items	2,480,181	-
Total deferred inflows of resources	5,905,882	171,220
Total liabilities and deferred inflows of resources	148,583,342	108,391,330
NET POSITION		
Net investment in capital assets	155,923,803	142,878,469
Restricted under IEPA loan covenant	3,439,103	3,447,996
Unrestricted	28,926,849	34,906,398
TOTAL NET POSITION	$ 188,289,755	$ 181,232,863

See accompanying notes to financial statements.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the Years Ended May 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Wastewater treatment (user) charges	$ 40,806,654	$ 38,548,143
Connection fees	1,621,295	2,363,504
Sewer T.V. inspection charges	22,713	10,609
Montgomery pump station operation	6,050	6,050
Pretreatment recovery revenue	254,712	222,358
Lien processing fees	3,585	2,214
Total operating revenues	42,715,009	41,152,878
OPERATING EXPENSES		
Operations	14,860,075	17,977,726
Administration	6,560,916	6,031,726
Depreciation	8,226,151	8,184,894
Total operating expenses	29,647,142	32,194,346
OPERATING INCOME	13,067,867	8,958,532
NON-OPERATING REVENUES (EXPENSES)		
Investment income	358,901	170,121
Replacement taxes	378,910	398,291
Annexation and related fees	229,236	19,974
Other revenue	1,315,453	1,081,172
Interest expense and fiscal charges	(1,049,683)	(1,125,225)
Total non-operating revenues (expenses)	1,232,817	544,333
CHANGE IN NET POSITION	14,300,684	9,502,865
NET POSITION, JUNE 1	181,232,863	171,729,998
Change in accounting principle	(7,243,792)	-
NET POSITION, JUNE 1, RESTATED	173,989,071	171,729,998
NET POSITION, MAY 31	$ 188,289,755	$ 181,232,863

See accompanying notes to financial statements.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

STATEMENTS OF CASH FLOWS

For the Years Ended May 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 41,689,524	$ 40,859,893
Payments to suppliers	(15,541,880)	(17,773,657)
Payments to employees	(6,898,021)	(5,314,461)
Net cash from operating activities	19,249,623	17,771,775
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Replacement taxes	378,910	398,291
Annexation and related fees	229,236	19,974
Other revenues	900,891	816,473
Net cash from noncapital financing activities	1,509,037	1,234,738
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(60,717,560)	(39,919,835)
Interest paid and fiscal charges	(1,055,262)	(1,130,668)
Principal paid on state revolving fund notes payable	(2,947,287)	(2,883,336)
Principal paid on due to other governments	(199,312)	(192,127)
Proceeds from state revolving fund notes payable	39,121,500	29,583,219
Net cash from capital and related financing activities	(25,797,921)	(14,542,747)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	400,790	84,149
(Purchase) proceeds of investments	1,119,494	(6,828,958)
Net cash from investing activities	1,520,284	(6,744,809)

(This statement is continued on the following page.)

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended May 31, 2018 and 2017

	2018	2017
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (3,518,977)	$ (2,281,043)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,921,040	6,202,083
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 402,063	$ 3,921,040
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 13,067,867	$ 8,958,532
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	8,226,151	8,184,894
Changes in assets and liabilities		
Accounts payable	(593,611)	103,421
Accounts receivable	(184,211)	3,039
Unbilled user fee receivable	(827,774)	(310,774)
Other receivable	-	25,000
Prepaid expenses	(44,968)	(3,794)
Wages payable	17,946	9,072
Accrued vacation and sick pay	15,361	100,288
Claims liability	(43,226)	104,442
Total OPEB liability	(1,824,223)	203,276
Net pension liability	(5,592,901)	(186,835)
Deferred pension items - OPEB	2,100,495	-
Deferred pension items - IMRF	4,946,217	591,464
Unearned revenues	(13,500)	(10,250)
Total adjustments	6,181,756	8,813,243
NET CASH FROM OPERATING ACTIVITIES	$ 19,249,623	$ 17,771,775
NONCASH TRANSACTIONS		
IEPA revolving loan receivable	$ 11,979,542	$ 10,604,760
TOTAL NONCASH TRANSACTIONS	$ 11,979,542	$ 10,604,760

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fox Metro Water Reclamation District (the District) is an Illinois unit of local government organized in 1925 under the Illinois Sanitary District Act of 1917. The Board of Trustees is appointed by state legislators who serve communities within district boundaries.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

a. Reporting Entity

The District is considered to be a primary government since it is legally separate and fiscally independent. These financial statements include all functions, programs, and activities under the control of the Board of Trustees of the District.

b. Fund Accounting

Governmental resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into a single fund.

Proprietary Funds

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the District is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the District has decided that periodic determination of revenues earned, expenses incurred, and net income or loss is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statements of net position. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. Operating revenues and expenses are directly attributable to the operation of the proprietary funds. Non-operating revenue/expenses are incidental to the operations of these funds.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

d. Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

e. Investments

Investments with a maturity date of less than one year from the date of purchase and non-negotiable certificates of deposit are recorded at cost or amortized cost. Investments with a maturity date of more than one year from the date of purchase are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date**.** The District held no investments reported at fair value at May 31, 2018 or 2017.

f. Accounts Receivable and Unbilled User Fees

The District recognizes wastewater treatment (user) charges in the period in which they are provided. The District bills these services on a bimonthly basis. An allowance for uncollectible accounts is provided based upon historical losses.

g. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Restricted Assets

Proceeds of Illinois EPA Loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable loan covenants.

i. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of one year. Such assets are stated at cost or at estimated historical cost.

Capital assets contributed to the District are recorded at acquisition value on the date contributed. Depreciation is computed under the straight-line method over the estimated useful lives of the assets. Depreciation is not recognized on construction in progress.

The following is a summary of useful lives used for depreciation of the various classes of capital assets:

Class	Useful Life in Years
Plant - buildings and improvements	5-50
Sanitary sewers and improvements	50
Plant machinery and equipment	3-50
Office furniture and equipment	5-15
Capitalized engineering and other costs	3-50
Vehicles	3-5

j. Compensated Absences

Compensated absences (sick days and vacation) are recorded in the period in which they are earned by employees whether or not actually paid.

k. Net Position

Restricted net position represent amounts required to be segregated by Illinois EPA Loan covenants ordinance provisions. Net investment in capital assets represents the book value of capital assets less outstanding long-term debt principal issued to construct or acquire capital assets. None of the District’s net position is restricted as a result of enabling legislation adopted by the District. If restricted or unrestricted funds are available for spending, the restricted funds are spent first.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Annexation and Related Fees

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective for fiscal years beginning after June 15, 2000, the District began recognizing capital contributions from non-exchange transactions as non-operating revenues beginning with fiscal year 2002. The District recognizes fees realized under annexation arrangements as revenue in the period received.

m. Capitalization of Interest

The District capitalizes interest costs incurred during the construction phase of qualified assets as part of the assets' basis.

n. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

o. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The District's investment policy authorizes the District to invest in all investments allowed by Illinois Compiled Statutes (ILCS). These include deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States Government or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within

2. DEPOSITS AND INVESTMENTS (Continued)

the three highest classifications by at least two standard rating services, The Illinois Funds (created by the Illinois State Legislature under the control of the State Comptroller that maintains a $1 per share value which is equal to the participants fair value), and the Illinois Metropolitan Investment Fund (IMET), a not-for-profit investment trust formed pursuant to the Illinois Municipal Code and managed by a Board of Trustees elected from the participating members. IMET is not registered with the SEC as an investment company. Investments in IMET are valued at IMET's share price, the price for which the investment could be sold. The District's investment policy does limit its deposits to financial institutions that are members of the FDIC system and are capable of posting collateral for amounts in excess of FDIC insurance.

It is the policy of the District to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objectives of the policy are, in order of priority, safety of principal, liquidity, and rate of return.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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; and Level 3 inputs are significant unobservable inputs. The District held no investments reported at fair value at May 31, 2018 or 2017.

<u>Deposits with Financial Institutions</u>

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District's investment policy requires pledging of collateral for all bank balances in excess of federal depository insurance. The District's investment policy does not address how collateral is to be held. At May 31, 2018 and 2017, collateral is held in the name of the District at a third party financial institution.

<u>Interest Rate Risk</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District limits its exposure to interest rate risk by remaining sufficiently liquid to meet all operating requirements that may be reasonably anticipated and to provide sufficient liquidity to pay obligations as they come due. The investment policy does not limit the maximum maturity length of investments. The District held no investments other than certificates of deposit at May 31, 2018 and 2017.

2. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that the issuer of a debt security will not pay its par value upon maturity. The District limits its exposure to credit risk by primarily investing in certificates of deposit and U.S. Treasury securities.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the District will not be able to recover the value of its investments that are in possession of an outside party. The District's investment policy does not address custodial credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk that the District has a high percentage of its investments invested in one type of investment. The District places no limit on the amount that may be invested in any one issuer, stating only that the District diversify its investments to avoid unreasonable risks. The District held no investments other than certificates of deposit at May 31, 2018 and 2017.

3. ACCOUNTS RECEIVABLE

The aging of the accounts receivable balance at May 31, 2018 and 2017 is as follows:

Days	2018	2017
0-30	$ 1,432,901	$ 1,299,615
31-59	250,809	286,808
60-89	573,559	457,237
90 and over	241,792	236,480
Total accounts receivable	2,499,061	2,280,140
Allowance for uncollectible accounts	(330,829)	(296,119)
NET ACCOUNTS RECEIVABLE	$ 2,168,232	$ 1,984,021

Included in the 90 and over balance are accounts against which liens have been filed by the District ($105,781 and $104,628 in 2018 and 2017, respectively) and related lien-filing fees and interest which the District charges ($136,011 and $132,852 in 2018 and 2017, respectively). The allowance for uncollectible accounts that is provided is management's estimation based upon the historical experience and other facts available at the time.

3. ACCOUNTS RECEIVABLE (Continued)

Unbilled user fee revenue has been recorded as of May 31, 2018 and 2017 in the amount of $6,160,248 and $5,332,474, respectively, to reflect wastewater treatment services performed but not billed as of those dates.

4. CAPITAL ASSETS

The District's property, plant, and equipment as of May 31, 2018 and 2017 are as follows:

	Balances June 1	Additions	Retirements	Balances May 31
2018				
Capital assets not being depreciated				
Land and land rights	$ 6,700,466	$ 4,014,428	$ -	$ 10,714,894
Construction in progress	55,706,953	57,478,933	13,375,657	99,810,229
Total capital assets not being depreciated	62,407,419	61,493,361	13,375,657	110,525,123
Capital assets being depreciated				
Buildings and improvements	98,360,820	-	1,199,312	97,161,508
Sanitary sewers and improvements	125,668,990	7,168,053	22,316	132,814,727
Plant machinery and equipment	78,910,594	3,024,054	1,405,402	80,529,246
Office furniture and equipment	757,258	159,695	53,369	863,584
Capitalized engineering and other costs	4,396,098	27,360	21,136	4,402,322
Vehicles	1,665,822	124,302	12,068	1,778,056
Total capital assets being depreciated	309,759,582	10,503,464	2,713,603	317,549,443
Less accumulated depreciation for				
Buildings and improvements	46,327,045	2,114,978	1,199,312	47,242,711
Sanitary sewers and improvements	49,996,331	3,052,209	22,316	53,026,224
Plant machinery and equipment	38,914,441	2,730,817	1,405,402	40,239,856
Office furniture and equipment	528,056	64,233	53,369	538,920
Capitalized engineering and other costs	3,108,233	99,196	21,136	3,186,293
Vehicles	1,334,254	164,718	12,068	1,486,904
Total accumulated depreciation	140,208,360	8,226,151	2,713,603	145,720,908
Total capital assets being depreciated, net	169,551,222	2,277,313	-	171,828,535
CAPITAL ASSETS, NET	$ 231,958,641	$ 63,770,674	$ 13,375,657	$ 282,353,658

4. CAPITAL ASSETS (Continued)

	Balances June 1	Additions	Retirements	Balances May 31
2017				
Capital assets not being depreciated				
Land and land rights	$ 6,349,489	$ 350,977	$ -	$ 6,700,466
Construction in progress	17,816,524	44,635,273	6,744,844	55,706,953
Total capital assets not being depreciated	24,166,013	44,986,250	6,744,844	62,407,419
Capital assets being depreciated				
Buildings and improvements	96,439,079	1,921,741	-	98,360,820
Sanitary sewers and improvements	120,546,881	5,122,109	-	125,668,990
Plant machinery and equipment	78,910,594	-	-	78,910,594
Office furniture and equipment	611,937	145,321	-	757,258
Capitalized engineering and other costs	4,396,098	-	-	4,396,098
Vehicles	1,595,398	70,424	-	1,665,822
Total capital assets being depreciated	302,499,987	7,259,595	-	309,759,582
Less accumulated depreciation for				
Buildings and improvements	44,218,968	2,108,077	-	46,327,045
Sanitary sewers and improvements	46,947,520	3,048,811	-	49,996,331
Plant machinery and equipment	36,198,288	2,716,153	-	38,914,441
Office furniture and equipment	467,386	60,670	-	528,056
Capitalized engineering and other costs	3,010,214	98,019	-	3,108,233
Vehicles	1,181,190	153,064	-	1,334,254
Total accumulated depreciation	132,023,566	8,184,794	-	140,208,360
Total capital assets being depreciated, net	170,476,421	(925,199)	-	169,551,222
CAPITAL ASSETS, NET	$ 194,642,434	$ 44,061,051	$ 6,744,844	$ 231,958,641

5. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; illnesses of employees; and natural disasters. General liability and property risks are covered through a public entity risk pool with transfer of risk. The District pays annual premiums to the risk pool. The District is not aware of any additional premiums owed to the risk pool as of May 31, 2018 and 2017 and for the prior two claim years.

5. RISK MANAGEMENT (Continued)

Workers' Compensation

The District is partially self-insured for workers' compensation coverage. At May 31, 2018 and 2017, the following insurance limits of coverage were in effect:

a. Aggregate Excess Workers' Compensation Insurance: Limits $2,000,000 three-year loss fund equal to the greater of 200% of the standards premium or the minimum term loan fund of $825,000 whichever is greater.

b. Special Excess Workers' Compensation and/or Employer's Liability Insurance: Illinois Workers' Compensation Act statutory maximum each occurrence, excess of a retention of $250,000 each occurrence, employer's liability limited to $500,000 each occurrence.

c. First Dollar Accident Hazards Insurance: Five times basic annual earnings limited to $225,000 per occurrence for accidental loss of life, limb, or sight. Aggregate limit equal to $2,000,000.

The District employs an independent claims service company to review and recommend payment of claims under workers' compensation. The District had $26,717 of workers' compensation open claims and estimated claims incurred but not reported as of May 31, 2018 and $27,993 of workers' compensation open claims and estimated claims incurred but not reported as of May 31, 2017. These claims are based upon salary costs of individuals and incurred medical and legal fees and individual claims incurred but not reported as of May 31, 2018 and 2017.

Health Insurance

The District has entered into an agreement with a claims paying agent to whom funds are transferred monthly. The agent pays insurance premiums for specific and aggregate policies, pays claims, and collects its fee for such services.

Under the self-insurance program, the District is responsible for the first $85,000 of covered charges per individual. Maximum lifetime benefits per individual are unlimited. On an aggregate basis, for the policy year, the District has a self-insurance retention based upon the average monthly number of employees and dependents. At May 31, 2018 and 2017, this self-insurance retention was approximately $2,117,279 and $1,716,841, respectively. Covered charges in excess of the aggregate self-insurance retention are provided by insurance to the extent of $1,000,000.

5. RISK MANAGEMENT (Continued)

Health Insurance (Continued)

The District's maximum exposure for the years ended May 31, 2018, 2017, and 2016 was calculated as follows:

	2018	2017	2016
Fixed costs			
Health and life coverage (specific, life, HFN fee, aggregate insurance, and administration cost)	$ 737,429	$ 699,012	$ 662,120
Variable costs (fund to pay claims)	1,734,900	1,531,541	1,766,976
TOTAL	$ 2,472,329	$ 2,230,553	$ 2,429,096

As of May 31, 2018 and 2017, claims outstanding and estimated as incurred but not reported were $156,641 and $198,591, respectively.

Claims Liabilities

The District is self-insured for all risks relative to health and workers' compensation insurance. The District has also purchased excess coverage policies to limit the District's exposure to these risks. An amount for incurred but not reported (IBNR) claims is recorded in the financial statements based upon actual experience.

The following is a reconciliation of changes in the liability for claims in the years ended May 31, 2018, 2017, and 2016:

	2018	2017	2016
CLAIMS LIABILITIES - JUNE 1	$ 226,584	$ 122,142	$ 378,307
Claims incurred and ceded	1,745,247	1,581,227	1,780,240
Claims paid	(1,788,473)	(1,476,785)	(2,036,405)
CLAIMS LIABILITIES - MAY 31	$ 183,358	$ 226,584	$ 122,142

6. CHANGES IN LONG-TERM DEBT

The following is a summary of note payable transactions of the District for the years ended May 31, 2018 and 2017:

	Water Pollution Control Revolving Fund Note Payable 2	Water Pollution Control Revolving Fund Note Payable 3	Water Pollution Control Revolving Fund Note Payable 4
NOTES PAYABLE AT MAY 31, 2016	$ 3,036,186	$ 11,131,542	$ 15,865,117
Issuances	-	-	-
Retirements	(521,212)	(702,686)	(920,253)
NOTES PAYABLE AT MAY 31, 2017	2,514,974	10,428,856	14,944,864
Issuances	-	-	-
Retirements	(534,508)	(720,362)	(943,404)
NOTES PAYABLE AT MAY 31, 2018	$ 1,980,466	$ 9,708,494	$ 14,001,460
CURRENT PORTION	$ 548,143	$ 366,949	$ 967,137

	Water Pollution Control Revolving Fund Note Payable 5	Water Pollution Control Revolving Fund Note Payable 6	Water Pollution Control Revolving Fund Note Payable 7
NOTES PAYABLE AT MAY 31, 2016	$ 10,382,140	$ 1,587,031	$ 1,683,396
Issuances	-	-	-
Retirements	(570,295)	(87,176)	(81,714)
NOTES PAYABLE AT MAY 31, 2017	9,811,845	1,499,855	1,601,682
Issuances	-	-	-
Retirements	(577,446)	(88,269)	(83,298)
NOTES PAYABLE AT MAY 31, 2018	$ 9,234,399	$ 1,411,586	$ 1,518,384
CURRENT PORTION	$ 584,687	$ 89,377	$ 84,913

6. CHANGES IN LONG-TERM DEBT (Continued)

	Water Pollution Control Revolving Fund Note Payable 8*	Water Pollution Control Revolving Fund Note Payable 9*	Total
NOTES PAYABLE AT MAY 31, 2016	$ 6,022,089	$ -	$ 49,707,501
Issuances	36,408,010	-	36,408,010
Retirements	-	-	(2,883,336)
NOTES PAYABLE AT MAY 31, 2017	42,430,099	-	83,232,175
Issuances	39,997,799	498,483	40,496,282
Retirements	-	-	(2,947,287)
NOTES PAYABLE AT MAY 31, 2018	$ 82,427,898	$ 498,483	$ 120,781,170
CURRENT PORTION	$ -	$ -	$ 2,641,206

*The repayment schedule and, therefore, current portion of the Water Pollution Control Revolving Fund Note Payable 8 and 9 are not determinable as the District is still receiving disbursements on these loans and no retirements have been made during the years ended May 31, 2018 and 2017 since the loan has not officially entered the repayment period.

Long-term debt at May 31, 2018 and 2017 comprises of the following individual note obligations.

a. Water Pollution Control Revolving Fund Notes Payable

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2000 (Note Payable 2) for the upgrade and expansion of the District Wastewater Treatment System. The note bears interest at 2.535% and matures on August 28, 2021. Simple interest is accrued on each loan disbursement on the day after the date of issuance. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended. The loan agreement was issued on a junior lien basis to the Sewerage Refunding Revenue Bond Series 1993 and 2002, and bonds which may be issued on a parity with the Series 1993 and 2002 Bonds. The loan agreement specifies special junior lien accounts into which revenues received from the use and operation of the sewerage system shall be set aside based upon the loan repayment schedule. The Sewerage Refunding Revenue Bond Series 2002 were retired on June 1, 2008.

6. CHANGES IN LONG-TERM DEBT (Continued)

a. Water Pollution Control Revolving Fund Notes Payable (Continued)

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2008 (Note Payable 3) for the construction of a Temperature Phase Anaerobic Digestion System. The note bears interest at 2.50% and matures on August 15, 2029, with interest and principal payments due each February 15 and August 15 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2009 (Note Payable 4) for the construction of a Wet Weather Excess Flow Pump Station. The note bears interest at 2.50% and matures on September 3, 2030, with interest and principal payments due each March 3 and September 3 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2011 (Note Payable 5) for the construction of a Wet Weather Excess Flow Pump Station. The note bears interest at 1.25% and matures on April 7, 2032, with interest and principal payments due each April 7 and October 7 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2012 (Note Payable 6) for the construction of the Cedar Glen subdivision sanitary sewer improvements. The note bears interest at 1.25% and matures on May 22, 2032, with interest and principal payments due each May 22 and November 22 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

6. CHANGES IN LONG-TERM DEBT (Continued)

a. Water Pollution Control Revolving Fund Notes Payable (Continued)

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2014 (Note Payable 7) for the construction of the Montgomery/Sugar Grove interceptor extension. The note bears interest at 1.93% and matures on September 30, 2033, with interest and principal payments due each March 30 and September 30 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2016 (Note Payable 8) for the construction of the South Wastewater Treatment Plant and an interceptor crossing the Waubonsee River. The note bears interest at 1.86% and matures on December 1, 2038, with interest and principal payments due each June 1 and December 1 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

The District entered into a Water Pollution Control Revolving Fund loan agreement with the Illinois EPA in fiscal year 2018 (Note Payable 9) for the construction of the North Facility Improvements (Phase II Waubonsee). The note bears interest at 1.56% and matures on September 25, 2039, with interest and principal payments due each March 25 and September 25 during the repayment period. Simple interest is accrued on each loan disbursement on the day after the date of issuance with construction period interest compounding into the principal of the loan. The loan agreement constitutes a sewerage revenue bond under the Sanitary District Act of 1917, as amended, the Sanitary District Revenue Bond Act, as amended, and the Local Government Debt Reform Act, as amended.

6. CHANGES IN LONG-TERM DEBT (Continued)

a. Water Pollution Control Revolving Fund Notes Payable (Continued)

The loans are payable solely from and secured by a pledge of the net revenues (as defined in the loan agreements) of the sewerage system. The District also covenants that it will at all times establish and maintain reasonable fees, rates, and charges for the services of the sewerage system so that the revenues derived there from will be sufficient to provide funds to pay the principal and interest requirements of the loans.

The Reserve Account shall be equal to the annual principal and interest payment funded within two years after the loan award. At May 31, 2018 and 2017, the balance of the account was $3,439,103 and $3,447,996, respectively.

b. Compensated Absences

The following is a summary of accrued compensated absences payable of the District for the years ended May 31, 2018 and 2017:

COMPENSATED ABSENCES PAYABLE AT MAY 31, 2016	$ 968,451
Issuances	293,978
Retirements	(193,690)
COMPENSATED ABSENCES PAYABLE AT MAY 31, 2017	1,068,739
Issuances	229,099
Retirements	(213,738)
COMPENSATED ABSENCES PAYABLE AT MAY 31, 2018	$ 1,084,100
CURRENT PORTION	$ 216,820

6. CHANGES IN LONG-TERM DEBT (Continued)

c. The annual requirements to amortize to maturity debt outstanding as of May 31, 2018 are as follows:

Fiscal Year Ending May 31,	Water Pollution Control Revolving Fund Note Payable 2 Principal	Water Pollution Control Revolving Fund Note Payable 2 Interest	Water Pollution Control Revolving Fund Note Payable 3 Principal	Water Pollution Control Revolving Fund Note Payable 3 Interest
2019	$ 548,143	$ 46,753	$ 366,949	$ 247,243
2020	562,127	32,769	747,715	228,894
2021	576,468	18,429	766,525	210,085
2022	293,728	3,723	785,808	190,802
2023	-	-	805,576	171,034
2024	-	-	825,841	150,769
2025	-	-	846,616	129,994
2026	-	-	867,914	108,696
2027	-	-	889,747	86,862
2028	-	-	912,130	64,480
2029	-	-	935,076	41,534
2030	-	-	958,597	18,011
2031	-	-	-	-
TOTAL	$ 1,980,466	$ 101,674	$ 9,708,494	$ 1,648,404

6. CHANGES IN LONG-TERM DEBT (Continued)

c. The annual requirements to amortize to maturity debt outstanding as of May 31, 2018 are as follows (Continued):

Fiscal Year Ending May 31,	Water Pollution Control Revolving Fund Note Payable 4 Principal	Interest	Water Pollution Control Revolving Fund Note Payable 5 Principal	Interest
2019	$ 967,137	$ 344,029	$ 584,687	$ 113,609
2020	991,466	319,700	592,018	106,277
2021	1,016,407	294,758	599,442	98,854
2022	1,041,976	269,189	606,958	91,337
2023	1,068,189	242,977	614,569	83,727
2024	1,095,060	216,106	622,275	76,020
2025	1,122,608	188,558	630,078	68,218
2026	1,150,848	160,317	637,978	60,317
2027	1,179,799	131,366	645,978	52,318
2028	1,209,479	101,687	654,078	44,218
2029	1,239,905	71,261	662,280	36,016
2030	1,271,096	40,070	670,584	27,712
2031	647,490	8,094	678,992	19,303
2032	-	-	687,506	10,789
2033	-	-	346,976	2,169
2034	-	-	-	-
TOTAL	$ 14,001,460	$ 2,388,112	$ 9,234,399	$ 890,884

6. CHANGES IN LONG-TERM DEBT (Continued)

c. The annual requirements to amortize to maturity debt outstanding as of May 31, 2018 are as follows (Continued):

Fiscal Year Ending May 31,	Water Pollution Control Revolving Fund Note Payable 6 Principal	Water Pollution Control Revolving Fund Note Payable 6 Interest	Water Pollution Control Revolving Fund Note Payable 7 Principal	Water Pollution Control Revolving Fund Note Payable 7 Interest
2019	$ 89,377	$ 17,366	$ 84,913	$ 28,897
2020	90,497	16,246	86,560	27,250
2021	91,632	15,111	88,239	25,572
2022	92,781	13,962	89,950	23,860
2023	93,944	12,799	91,695	22,116
2024	95,122	11,621	93,473	20,338
2025	96,315	10,428	95,286	18,525
2026	97,522	9,220	97,133	16,677
2027	98,745	7,997	99,017	14,793
2028	99,983	6,759	100,937	12,873
2029	101,237	5,505	102,895	10,916
2030	102,507	4,236	104,890	8,920
2031	103,792	2,951	106,925	6,886
2032	105,093	1,649	108,998	4,813
2033	53,039	331	111,112	2,699
2034	-	-	56,361	544
TOTAL	$ 1,411,586	$ 136,181	$ 1,518,384	$ 245,679

7. INTERGOVERNMENTAL AGREEMENTS

City of Aurora

On April 19, 2006, the City of Aurora (the City) entered into an agreement with the District to jointly construct a new sanitary sewer system for the City's downtown area. The agreement specifies that the City will finance all construction costs of the system. The District will repay the City 50% of the costs on a 30-year schedule in line with the debt service schedule for the City's Water and Sewer Revenue Bonds, Series 2006. Principal payments are due to the City on June 1 of each year beginning June 1, 2007, and interest payments are due semiannually on June 1 and December 1 of each year beginning December 1, 2006. During fiscal year 2016, the City refunded the underlying debt leading to a revised future payment schedule.

7. INTERGOVERNMENTAL AGREEMENTS (Continued)

City of Aurora (Continued)

The constructed system subject to 50% repayment shall be titled in the name of the District, which will own 100%. The District agreed to be fully responsible for operation and maintenance of the system. In addition, the principal amount of the liability to be paid to the City is recorded in the statement of net position and has been accrued as a proportion of construction costs as incurred.

The liability is to be paid to the City each year as follows:

	Sanitary Sewer System	
Fiscal Year	Principal	Interest
2019	$ 206,584	$ 198,034
2020	214,021	191,836
2021	224,136	185,416
2022	229,362	178,692
2023	239,870	171,811
2024-2028	1,331,942	745,741
2029-2033	1,620,278	510,487
2034-2038	1,582,492	161,880
TOTAL PAYMENTS	$ 5,648,685	$ 2,343,897

Waubonsee Community College

On June 15, 2005, the District entered into an agreement with Waubonsee Community College (the College) for the construction of a new sanitary sewer line. The agreement requires the District to remit to the College the Infrastructure Participation Fees associated with the new plant, with potential payments totaling $3,521,000. The total payments to date as of May 31, 2018 and 2017 were $686,006.

8. COMMITMENTS

The District is currently involved with certain sewer system development and maintenance projects. Uncompleted contractual amounts on these projects, relating to the District and exclusive of amounts being incurred by developers and other governmental entities, totaled approximately $23,040,657 and $68,082,668 as of May 31, 2018 and 2017, respectively.

9. DEFINED BENEFIT PENSION PLAN

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 affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained online at www.imrf.org.

Illinois Municipal Retirement Fund

Plan Administration

All employees hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members.

The plan is accounted for on the economic resources measurement focus and the accrual basis of accounting. Employer and employee contributions are recognized when earned in the year that the contributions are required. Benefits and refunds are recognized as an expense and liability when due and payable.

Plan Membership

At December 31, 2017, IMRF membership consisted of:

Inactive employees or their beneficiaries currently receiving benefits	90
Inactive employees entitled to but not yet receiving benefits	19
Active employees	84
TOTAL	193

At December 31, 2016, IMRF membership consisted of:

Inactive employees or their beneficiaries currently receiving benefits	88
Inactive employees entitled to but not yet receiving benefits	16
Active employees	88
TOTAL	192

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Benefits Provided

IMRF provides two tiers of pension benefits. Employees hired prior to January 1, 2011, are eligible for Tier 1 benefits. For Tier 1 employees, pension benefits vest after eight years of service. Participating members who retire at age 55 (reduced benefits) or after age 60 (full benefits) with eight years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter.

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating members who retire at age 62 (reduced benefits) or after age 67 (full benefits) with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter.

IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute.

Contributions

As set by statute, the District's regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires the District to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's annual required contribution percentage for the fiscal years 2017 and 2018 was 13.66% and 13.57%. The District also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Actuarial Assumptions

The District's net pension liability was measured as of December 31, 2017 and 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of the same date using the following actuarial methods and assumptions.

Actuarial valuation date	December 31, 2016	December 31, 2017
Actuarial cost method	Entry-age normal	Entry-age normal
Assumptions		
Inflation	2.75%	2.50%
Salary increases	3.75% to 14.50%	3.39% to 14.25%
Interest rate	7.50%	7.50%
Cost of living adjustments	3.00%	3.00%
Asset valuation method	Market value	Market value

2017 - For nondisabled 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 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustment that were applied for nondisabled lives. 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.

2016 - For nondisabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). 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). IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustment 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). IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Discount Rate

The discount rate used to measure the total pension liability at May 31, 2018 and 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the IMRF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Change in the Net Pension Liability

December 31, 2016

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a) - (b) Net Pension Liability
BALANCES AT JANUARY 1, 2016	$ 41,899,787	$ 35,508,897	$ 6,390,890
Changes for the period			
Service cost	623,792	-	623,792
Interest	3,078,963	-	3,078,963
Difference between expected and actual experience	(100,244)	-	(100,244)
Changes in assumptions	(109,180)	-	(109,180)
Employer contributions	-	875,384	(875,384)
Employee contributions	-	278,009	(278,009)
Net investment income	-	2,456,460	(2,456,460)
Benefit payments and refunds	(2,098,151)	(2,098,151)	-
Administrative expense	-	-	-
Other (net transfer)	-	70,313	(70,313)
Net changes	1,395,180	1,582,015	(186,835)
BALANCES AT DECEMBER 31, 2016	$ 43,294,967	$ 37,090,912	$ 6,204,055

Changes in assumptions related to the discount rate were made in 2016.

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Change in the Net Pension Liability (Continued)

December 31, 2017

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a) - (b) Net Pension Liability
BALANCES AT JANUARY 1, 2017	$ 43,294,967	$ 37,090,912	$ 6,204,055
Changes for the period			
Service cost	649,378	-	649,378
Interest	3,194,524	-	3,194,524
Difference between expected and actual experience	(197,873)	-	(197,873)
Changes in assumptions	(1,338,332)	-	(1,338,332)
Employer contributions	-	1,832,333	(1,832,333)
Employee contributions	-	289,228	(289,228)
Net investment income	-	6,658,965	(6,658,965)
Benefit payments and refunds	(2,052,012)	(2,052,012)	-
Administrative expense	-	-	-
Other (net transfer)	-	(879,928)	879,928
Net changes	255,685	5,848,586	(5,592,901)
BALANCES AT DECEMBER 31, 2017	$ 43,550,652	$ 42,939,498	$ 611,154

Changes in assumptions related to price inflation, salary increases, retirement age, and mortality rates were made in 2017.

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended May 31, 2018, the District recognized pension expense of $226,971. At May 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to IMRF from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 102,022	$ 226,273
Changes in assumption	23,927	1,169,125
District contributions subsequent to the measurement date	329,737	-
Net difference between projected and actual earnings on pension plan investments	-	2,030,303
TOTAL	$ 455,686	$ 3,425,701

$329,737 reported as deferred outflows of resources resulting from district contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the reporting year ending May 31, 2019.

The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to IMRF will be recognized in pension expense as follows:

Year Ending May 31,	
2019	$ (512,695)
2020	(512,695)
2021	(1,033,537)
2022	(1,073,735)
2023	(167,090)
TOTAL	$ (3,299,752)

9. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Discount Rate Sensitivity

December 31, 2017

The following is a sensitivity analysis of the net pension liability (asset) to changes in the discount rate. The table below presents the net pension liability (asset) of the District calculated using the discount rate of 7.50% as well as what the District's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset)	$ 6,322,146	$ 611,154	$ (4,090,395)

December 31, 2016

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability of the District calculated using the discount rate of 7.50% as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 12,105,148	$ 6,204,055	$ 1,364,583

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

In addition to providing the pension benefits described, the District provides other postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. 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, except for the implicit subsidy which is governed by the State Legislature and ILCS. 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.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Benefits Provided

The District provides postemployment health care and life insurance benefits to its retirees. To be eligible for implicit benefits, an employee must qualify for retirement under IMRF or meet COBRA requirements. Employees become eligible for explicit benefits at a rate of 3% of premiums per year of service. Employees receive 100% of premiums at a minimum age of 62 with 20 years of service.

All health care benefits are provided through the District's self-insured employee health plan. The benefit levels are the same as those afforded to active employees. Benefits include general inpatient and outpatient medical services; mental, nervous, and substance abuse care; vision care; dental care; and prescriptions. The benefits are provided until age 65 or whenever Medicare coverage becomes available.

a. Membership

At May 31, 2018, membership consisted of:

Retirees and beneficiaries currently receiving benefits	10
Terminated employees entitled to benefits but not yet receiving them	-
Active employees	95
TOTAL	105
Participating employers	1

b. Total OPEB Liability

The District's total OPEB liability of $6,705,982 was measured as of May 31, 2018 and was determined by an actuarial valuation as of June 1, 2017.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

c. Actuarial Assumptions and Other Inputs

The total OPEB liability at May 31, 2018, as determined by an actuarial valuation as of June 1, 2017 actuarial valuation, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liability was rolled forward by the actuary using updating procedures to May 31, 2018, including updating the discount rate at May 31, 2018, as noted below.

Actuarial cost method	Entry-age
Actuarial value of assets	Not applicable
Inflation	3.00%
Salary increases	4.00%
Discount rate	3.27%
Healthcare cost trend rates	4.50% to 5.00% Initial and Ultimate

The discount rate was based on the index rate for 20-year tax exempt general obligation municipal bonds rated AA or better at May 31, 2018.

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on scale AA.

The actuarial assumptions used in the June 1, 2017 valuation are based on 10% participation assumed for Trustees and 100% for all other future retirees, with 80% electing spouse coverage for Trustees and 60% for non-Trustee employees.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

d. Changes in the Total OPEB Liability

	Total OPEB Liability
BALANCES AT JUNE 1, 2017	$ 8,530,205
Changes for the period	
Service cost	295,928
Interest	215,239
Difference between expected and actual experience	(1,863,567)
Changes in benefit terms	253,406
Changes in assumptions	(477,738)
Benefit payments	(247,491)
Net changes	(1,824,223)
BALANCES AT MAY 31, 2018	$ 6,705,982

There were changes in assumptions related to the discount rate and health care trend rate, participation assumption for trustees and eligibility requirements for Trustees and non-Trustees. In addition, the decrements were changed to those in the most recent IMRF pension plan valuation report.

e. Rate Sensitivity

The following is a sensitivity analysis of the total OPEB liability to changes in the discount rate and the healthcare cost trend rate. The table below presents the total OPEB liability of the District calculated using the discount rate of 3.27% as well as what the District total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.27%) or 1 percentage point higher (4.27%) than the current rate:

	1% Decrease (2.27%)	Current Discount Rate (3.27%)	1% Increase (4.27%)
Total OPEB liability	$ 7,236,407	$ 6,705,982	$ 6,211,365

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

e. Rate Sensitivity (Continued)

The table below presents the total OPEB liability of the District calculated using the healthcare rate of 4.50% to 5.00% as well as what the District's total OPEB liability would be if it were calculated using a healthcare rate that is 1 percentage point lower (3.50% to 4.00%) or 1 percentage point higher (5.50% to 6.00%) than the current rate:

	1% Decrease (3.50% to 4.00%)	Current Healthcare Rate (4.50% to 5.00%)	1% Increase (5.50% to 6.00%)
Total OPEB liability	$ 6,010,033	$ 6,705,982	$ 7,522,650

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

For the year ended May 31, 2018, the District recognized OPEB expense of $276,272. At May 31, 2018, 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
Differences between expected and actual experience	$ -	$ 1,671,893
Changes in assumptions	379,686	808,288
TOTAL	$ 379,686	$ 2,480,181

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

f. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending May 31,	
2019	$ (240,810)
2020	(240,810)
2021	(240,810)
2022	(240,810)
2023	(240,810)
Thereafter	(896,445)
TOTAL	$ (2,100,495)

g. Annual OPEB Costs and Net OPEB Obligation

As the District presents comparative financial statements, the following disclosures for fiscal year 2017 are provided in accordance with GASB Statement No. 45, *Accounting and Finance Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 618,713	$ 418,120	67.58%	$ 881,207
2016	620,050	418,120	67.43%	1,083,137
2017	621,396	418,120	67.29%	1,286,413

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

g. Annual OPEB Costs and Net OPEB Obligation (Continued)

The net OPEB obligation as of May 31, 2017 was calculated as follows:

Annual required contribution	$ 614,175
Interest on net OPEB obligation	43,326
Adjustment to annual required contribution	(36,105)
Annual OPEB cost	621,396
Contributions made	418,120
Increase in net OPEB obligation	203,276
Net OPEB obligation, beginning of year	1,083,137
NET OPEB OBLIGATION, END OF YEAR	$ 1,286,413

Funded Status and Funding Progress. The funded status of the plan as of May 31, 2015 (latest information available) was as follows:

Actuarial accrued liability (AAL)	$ 8,034,421
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	8,034,421
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$ 5,952,155
UAAL as a percentage of covered payroll	134.98%

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

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

g. Annual OPEB Costs and Net OPEB Obligation (Continued)

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

In the May 31, 2015 actuarial valuation, the entry-age actuarial cost method was used. The actuarial assumptions included a discount rate of 4% and an initial and ultimate healthcare cost trend rate of 5%. Both rates include a 4% inflation assumption. The actuarial value of assets was not determined as the District has not advance funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at May 31, 2014 was 30 years.

11. CHANGE IN ACCOUNTING PRINCIPLE

The District recorded the following change in accounting principle during the year ended May 31, 2018:

	Increase (Decrease)
CHANGE IN ACCOUNTING PRINCIPLE - BUSINESS-TYPE ACTIVITIES	
To record the total OPEB liability and write off other postemployement benefits obligation	$ (7,243,792)
TOTAL CHANGE IN ACCOUNTING PRINCIPLE - BUSINESS-TYPE ACTIVITIES	$ (7,243,792)

For the fiscal year ended May 31, 2018, the District implemented GASB Statement No. 75. With the implementation, the District is required to retroactively record the total postemployment benefit liability and write-off the net OPEB obligation. Information is not available to restate for 2017. Accordingly, disclosures required under GASB Statement No. 45 are presented above.

REQUIRED SUPPLEMENTARY INFORMATION

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET PENSION LIABILITY AND RELATED RATIOS
ILLINOIS MUNICIPAL RETIREMENT FUND

Last Three Calendar Years

MEASUREMENT DATE DECEMBER 31,	2015	2016	2017
TOTAL PENSION LIABILITY			
Service cost	$ 611,734	$ 623,792	$ 649,378
Interest	2,945,960	3,078,963	3,194,524
Changes of benefit terms	-	-	-
Differences between expected and actual experience	224,422	(100,244)	(197,873)
Changes of assumptions	52,631	(109,180)	(1,338,332)
Benefit payments, including refunds of member contributions	(1,922,014)	(2,098,151)	(2,052,012)
Net change in total pension liability	1,912,733	1,395,180	255,685
Total pension liability - beginning	39,987,054	41,899,787	43,294,967
TOTAL PENSION LIABILITY - ENDING	$ 41,899,787	$ 43,294,967	$ 43,550,652
PLAN FIDUCIARY NET POSITION			
Contributions - employer	$ 868,666	$ 875,384	$ 1,832,333
Contributions - member	270,736	278,009	289,228
Net investment income	175,193	2,456,460	6,658,965
Benefit payments, including refunds of member contributions	(1,922,014)	(2,098,151)	(2,052,012)
Other (net transfer)	686,461	70,313	(879,928)
Net change in plan fiduciary net position	79,042	1,582,015	5,848,586
Plan fiduciary net position - beginning	35,429,855	35,508,897	37,090,912
PLAN FIDUCIARY NET POSITION - ENDING	$ 35,508,897	$ 37,090,912	$ 42,939,498
EMPLOYER'S NET PENSION LIABILITY	$ 6,390,890	$ 6,204,055	$ 611,154
Plan fiduciary net position as a percentage of the total pension liability	84.75%	85.67%	98.60%
Covered-employee payroll	$ 6,016,362	$ 6,177,988	$ 6,427,285
Employer's net pension liability as a percentage of covered-employee payroll	106.23%	100.42%	9.51%

In 2015 and 2016, there was a change in assumptions with respect to the discount rate.

In 2017, changes in assumptions related to price inflation, salary increases, retirement age, and mortality rates were made.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS
ILLINOIS MUNICIPAL RETIREMENT FUND

Last Three Fiscal Years

FISCAL YEAR ENDING MAY 31,	**2016**	**2017**	**2018**
Actuarially determined contribution	$ 905,387	$ 944,380	$ 817,162
Contributions in relation to the actuarially determined contribution	905,387	944,380	817,162
CONTRIBUTION DEFICIENCY (Excess)	$ -	$ -	$ -
Covered-employee payroll	$ 6,016,362	$ 6,913,945	$ 6,022,876
Contributions as a percentage of covered-employee payroll	15.05%	13.66%	13.57%

Notes to Required Supplementary Information

The District made an additional contribution of $1,000,000 during the fiscal year ending May 31, 2017.

The information presented was determined as part of the actuarial valuations as of January 1 of the prior fiscal year. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal; the amortization method was level percent of pay, closed, and the amortization period was 26 years (ten-year rolling period for nontaxing bodies); the asset valuation method was five-year smoothed market; and the significant actuarial assumptions were an investment rate of return at 7.50% annually, projected salary increases assumption of 3.75% to 14.50% compounded annually, and postretirement benefit increases of 3.50% compounded annually.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN

Last Six Fiscal Years

Actuarial Valuation Date June 1,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age	(3) Funded Ratio (1) / (2)	(4) Unfunded AAL (UAAL) (2) - (1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
2013	N/A	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A	N/A
2015	$ -	$ 8,034,421	0.00%	$ 8,034,421	$ 5,952,155	134.98%
2016	N/A	N/A	N/A	N/A	N/A	N/A
2017	N/A	N/A	N/A	N/A	N/A	N/A
2018	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Required Supplementary Information

N/A - The District did not have a valuation performed for this year.

GASB Statement No. 75 was implemented for the fiscal year ended May 31, 2018.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS PLAN

Last Six Fiscal Years

Fiscal Year May 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2013	$ 267,029	$ 514,749	51.88%
2014	267,029	514,749	51.88%
2015	418,120	614,175	68.08%
2016	418,120	614,175	68.08%
2017	418,120	614,175	68.08%
2018	N/A	N/A	N/A

Notes to Required Supplementary Information

N/A - GASB Statement No. 75 was implemented for the fiscal year ended May 31, 2018.

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULE OF CHANGES IN THE EMPLOYER'S
TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN

Last Fiscal Year

MEASUREMENT DATE MAY 31,	2018
TOTAL OPEB LIABILITY	
Service cost	$ 295,928
Interest	215,239
Changes of benefit terms	253,406
Differences between expected and actual experience	(1,863,567)
Changes of assumptions	(477,738)
Benefit payments, including refunds of member contributions	(247,491)
Net change in total OPEB liability	(1,824,223)
Total OPEB liability - beginning	8,530,205
TOTAL OPEB LIABILITY - ENDING	$ 6,705,982
Covered-employee payroll	$ 6,365,770
Employer's total OPEB liability as a percentage of covered-employee payroll	105.34%

For the 2018, the following changes in assumptions were made: Starting per capita costs were updated using most recent premiums. The health care trend rates were reset based on recent experience. Decrements were changed to those in the most recent IMRF pension plan valuation report. The election at retirement assumption for Trustees was changed to 10%. Eligibility requirements for Trustees and dental benefits for non-Trustee retirees were changed to the current policy.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many years as is available.

SUPPLEMENTAL SCHEDULES

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULES OF CHANGES IN NET POSITION

For the Years Ended May 31, 2018 and 2017

	Net Position			
	Net Investment in Capital Assets	Restricted Under IEPA Loan Requirements	Unrestricted	Total
BALANCES, MAY 31, 2016	$ 138,894,809	$ 3,313,215	$ 29,521,974	$ 171,729,998
Change in net position for the year ended May 31, 2017	-	-	9,502,865	9,502,865
Interaccount transfers				
Payment of bond principal, interest, and escrow amounts	-	(3,798,785)	3,798,785	-
Transfer of amounts in accordance with IEPA loan requirements	-	3,933,566	(3,933,566)	-
Transfer required to net investment in capital assets	3,983,660	-	(3,983,660)	-
BALANCES, MAY 31, 2017	142,878,469	3,447,996	34,906,398	181,232,863
Change in accounting principle	-	-	(7,243,792)	(7,243,792)
BALANCES, MAY 31, 2017, RESTATED	142,878,469	3,447,996	27,662,606	173,989,071
Change in net position for the year ended May 31, 2018	-	-	14,300,684	14,300,684
Interaccount transfers				
Payment of bond principal, interest, and escrow amounts	-	(3,795,942)	3,795,942	-
Transfer of amounts in accordance with IEPA loan requirements	-	3,787,049	(3,787,049)	-
Transfer required to net investment in capital assets	13,045,334	-	(13,045,334)	-
BALANCES, MAY 31, 2018	$ 155,923,803	$ 3,439,103	$ 28,926,849	$ 188,289,755

(See independent auditor's report.)

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULES OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL

For the Years Ended May 31, 2018 and 2017

	2018			2017		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
OPERATING REVENUES						
Wastewater treatment (user) charges	$ 37,957,000	$ 40,806,654	$ 2,849,654	$ 36,530,000	$ 38,548,143	$ 2,018,143
Connection fees	2,500,000	1,621,295	(878,705)	2,500,000	2,363,504	(136,496)
Sewer T.V. inspection charges	10,000	22,713	12,713	10,000	10,609	609
Montgomery pump station operation	6,600	6,050	(550)	6,600	6,050	(550)
Pretreatment recovery revenues	135,000	254,712	119,712	130,000	222,358	92,358
Lien processing fees	3,600	3,585	(15)	8,000	2,214	(5,786)
Total operating revenues	40,612,200	42,715,009	2,102,809	39,184,600	41,152,878	1,968,278
OPERATING EXPENSES EXCLUDING DEPRECIATION						
Operations						
Union and non-union salaries and wages	5,426,600	5,390,432	36,168	4,929,000	5,461,035	(532,035)
Pension (FICA and IMRF)	1,148,000	547,097	600,903	2,089,000	2,537,279	(448,279)
Training and development	151,420	191,786	(40,366)	145,165	113,055	32,110
Unemployment compensation	20,500	17,577	2,923	34,000	20,049	13,951
Electricity	1,660,000	1,427,827	232,173	1,680,000	1,481,683	198,317
Natural gas	120,000	137,152	(17,152)	120,000	73,511	46,489
Cost of solids removal	397,500	250,850	146,650	398,500	373,431	25,069
Chemical cost	814,850	662,904	151,946	814,850	657,045	157,805
Supplies and maintenance of sewer and lift stations	1,258,000	579,228	678,772	974,500	806,557	167,943
T.V. sewer inspection	622,600	1,075,008	(452,408)	622,600	988,627	(366,027)
Plant maintenance	954,700	994,199	(39,499)	1,133,050	1,197,595	(64,545)
Plant supplies	205,925	177,886	28,039	164,925	187,100	(22,175)
Instrumentation	354,000	328,736	25,264	322,000	349,682	(27,682)
Motor vehicle maintenance	101,300	62,518	38,782	111,300	93,060	18,240
Plant computer	95,500	66,266	29,234	86,000	73,494	12,506
Engineering fees	-	1,398,989	(1,398,989)	5,100,000	1,285,640	3,814,360
Miscellaneous capital expenses	-	880,129	(880,129)	-	1,585,644	(1,585,644)
Engineering supplies and equipment	503,385	451,286	52,099	428,585	484,775	(56,190)
Lab supplies and equipment	214,600	210,422	4,178	202,850	197,241	5,609
Lab - outside analysis	11,900	9,783	2,117	12,250	11,223	1,027
Total operations	14,060,780	14,860,075	(799,295)	19,368,575	17,977,726	1,390,849

(This schedule is continued on the following pages.)

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULES OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (Continued)

For the Years Ended May 31, 2018 and 2017

	2018			2017		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
OPERATING EXPENSES EXCLUDING DEPRECIATION (Continued)						
Administration						
Union and non-union salaries and wages	$ 1,249,000	$ 1,479,495	$ (230,495)	$ 1,217,000	$ 1,182,207	$ 34,793
Pension (FICA and IMRF)	287,000	279,944	7,056	267,500	270,799	(3,299)
Insurance expense	303,000	331,211	(28,211)	260,000	321,576	(61,576)
Insurance claims and premiums	2,575,000	2,525,181	49,819	2,575,000	2,328,590	246,410
Attorney fees	100,000	120,122	(20,122)	70,000	165,470	(95,470)
Accounting and auditing	80,000	54,292	25,708	75,000	66,790	8,210
Administrative computer	519,100	551,769	(32,669)	474,800	483,891	(9,091)
Recorder fees	5,000	2,526	2,474	9,000	4,499	4,501
Postage	205,000	189,128	15,872	216,000	220,711	(4,711)
Telephone	69,000	78,955	(9,955)	69,000	72,124	(3,124)
Small claims court	14,000	9,521	4,479	16,000	15,019	981
Collection agency fees	94,000	91,180	2,820	85,000	92,852	(7,852)
Meter reading costs	88,200	90,384	(2,184)	94,600	92,535	2,065
Billing supplies	65,500	37,663	27,837	62,500	67,110	(4,610)
Office supplies and equipment	10,000	7,248	2,752	10,000	6,344	3,656
Publishing and printing	21,500	18,027	3,473	22,500	11,471	11,029
Payroll service	17,500	22,501	(5,001)	15,000	17,564	(2,564)
Office machine repair	3,000	-	3,000	3,500	-	3,500
District associations	40,000	33,164	6,836	40,000	30,526	9,474
Travel	1,500	388	1,112	2,000	402	1,598
Books and subscriptions	1,750	1,101	649	1,500	1,220	280
Real estate taxes	5,000	19,951	(14,951)	5,000	38,765	(33,765)
NPDES permit	80,000	75,138	4,862	80,000	75,138	4,862
Miscellaneous	497,000	504,946	(7,946)	456,500	447,992	8,508
Employee assistance program	3,000	2,370	630	3,000	2,430	570
Bad debt expense	-	34,711	(34,711)	-	15,701	(15,701)
Total administration	6,334,050	6,560,916	(226,866)	6,130,400	6,031,726	98,674
Total operating expenses excluding depreciation	20,394,830	21,420,991	(1,026,161)	25,498,975	24,009,452	1,489,523

(This schedule is continued on the following page.)

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

SCHEDULES OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (Continued)

For the Years Ended May 31, 2018 and 2017

	2018			2017		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
OPERATING INCOME BEFORE DEPRECIATION	$ 20,217,370	$ 21,294,018	$ 1,076,648	$ 13,685,625	$ 17,143,426	$ 3,457,801
Depreciation	-	8,226,151	(8,226,151)	-	8,184,894	(8,184,894)
OPERATING INCOME (LOSS) AFTER DEPRECIATION	20,217,370	13,067,867	(7,149,503)	13,685,625	8,958,532	(4,727,093)
NON-OPERATING REVENUES (EXPENSES)						
Investment income	80,000	358,901	278,901	20,500	170,121	149,621
Replacement taxes	300,000	378,910	78,910	300,000	398,291	98,291
Annexation and related fees	86,000	229,236	143,236	133,000	19,974	(113,026)
Other revenue	866,000	1,315,453	449,453	1,090,000	1,081,172	(8,828)
Interest expense and fiscal charges	(1,434,000)	(1,049,683)	384,317	(1,434,000)	(1,125,225)	308,775
Total non-operating revenues (expenses)	(102,000)	1,232,817	1,334,817	109,500	544,333	434,833
CHANGE IN NET POSITION	$ 20,115,370	$ 14,300,684	$ (5,814,686)	$ 13,795,125	$ 9,502,865	$ (4,292,260)

OTHER SUPPLEMENTAL INFORMATION

FOX METRO WATER RECLAMATION DISTRICT
OSWEGO, ILLINOIS

INSURANCE COVERAGE AND OTHER INFORMATION

May 31, 2018

Company	Policy Number	Expiration Date	Coverage	Liability Limits
Chubb Group of Insurance Companies	35948073	Dec-18	Property	$127,219,583 replacement value, flood $5,000,000, earthquake $5,000,000, business income with extra expense $2,500,000
Cincinnati Insurance	ENP 011 27 99	Dec-18	Dwellings	$234,000
Illinois Counties Risk Management Trust (ICRMT)	R1-1000211-1718-01	Dec-18	General liability	$1,000,000 each occurrence, $3,000,000 annual aggregate, $1,000,000 completed operations, medical payments $5,000/$50,000 each person/occurrence
Illinois Counties Risk Management Trust (ICRMT)	R1-1000211-1718-01	Dec-18	Auto liability	$1,000,000 each accident, $100,000 uninsured motorist, medical payments $5,000/$25,000 each person/accident
Illinois Counties Risk Management Trust (ICRMT)	R1-1000211-1718-01	Dec-18	Public officials liability	$1,000,000 per claim
Illinois Counties Risk Management Trust (ICRMT)	R1-1000211-1718-01	Dec-18	Crime	$500,000 blanket employee dishonesty
Illinois Counties Risk Management Trust (ICRMT)	R1-1000211-1718-01	Dec-18	Cyber liability	$50,000 per claim
Illinois Counties Risk	R1-1000211-1718-01	Dec-18	Umbrella liability	$9,000,000 sits over general, auto, and public officials liability
Lloyd's Illinois, Inc.	ESE00140022	Dec-18	Cyber liability	$1,000,000 per claim
Safety National	SP 4055990	Dec-18	Workers' compensation, specific excess $500,000 deductible	$2,500,000 or as limited under Illinois state law
Unimerica	UNI-201590	Jul-18	Health benefit excess per employee and	$5,000,000 lifetime per employee or dependent
Unimerica	UNI-201590	Jul-18	Life insurance	1x annual salary, $2,500 spouse, $1,000 child

(See independent auditor's report.)