

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2016

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM

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ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON BARTELSON

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Metro East Sanitary District -
Lansdowne Trunk - Madison and
Venice Sewerage System
St. Clair and Madison Counties, Illinois

We have audited the accompanying financial statements of the business-type activities and the major fund of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (the "System"), a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinions

The System has not recognized the pension and other post-employment benefit (OPEB) expenses, obligations and disclosures which are required in accordance with accounting principles generally accepted in the United States of America and under Government Accounting Standards Board (GASB), to be recorded in the business-type activities and proprietary fund financial statements, due to the unavailability of information. The effect of these departures on the financial statements are not reasonably determinable.

Qualified Opinion

In our opinion, except for the missing recognition and disclosure matters described in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System, a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois as of March 31, 2016, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System’s basic financial statements. The accompanying other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Edwardsville, Illinois
August 19, 2016

**METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2016

This section of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System's (the "System") annual financial report presents an analysis of the System's financial performance during the fiscal year ended March 31, 2016. This information is presented in conjunction with the audited basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Financial Statements of the Sewer Proprietary Fund. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the System report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identifies the System's revenues and expenses and provides information on the System's operations that can be used to determine whether the System has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the System's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE SYSTEM

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the System's financial condition and also indicate that the financial condition of the System deteriorated during the last two fiscal years. A decrease in net position over time typically indicates the financial condition needs to be thoroughly investigated.

NET POSITION

A summary of the System's Statement of Net Position is presented below.

Table 1
Condensed Statement of Net Position

	2016	2015	Dollar Change	Percent Change
Assets				
Current and Other Assets	\$ 1,372,719	\$ 2,323,311	\$ (950,592)	-40.92%
Capital Assets, Net	5,633,746	5,839,737	(205,991)	-3.53%
Total Assets	<u>\$ 7,006,465</u>	<u>\$ 8,163,048</u>	<u>\$ (1,156,583)</u>	<u>-14.17%</u>
Liabilities				
Current Liabilities	\$ 638,676	\$ 483,962	\$ 154,714	31.97%
Long-Term Liabilities	1,765,446	1,904,354	(138,908)	-7.29%
Total Liabilities	<u>\$ 2,404,122</u>	<u>\$ 2,388,316</u>	<u>\$ 15,806</u>	<u>0.66%</u>
Net Position				
Net Investment in				
Capital Assets	\$ 3,838,000	\$ 3,924,275	\$ (86,275)	-2.20%
Restricted	11,841	8,914	2,927	32.84%
Unrestricted	752,502	1,841,543	(1,089,041)	-59.14%
Total Net Position	<u>\$ 4,602,343</u>	<u>\$ 5,774,732</u>	<u>\$ (1,172,389)</u>	<u>-20.30%</u>
Total Liabilities and Net Position	<u>\$ 7,006,465</u>	<u>\$ 8,163,048</u>	<u>\$ (1,156,583)</u>	<u>-14.17%</u>

For more detailed information see the Statement of Net Position.

As the above table indicates, total assets decreased by \$1,156,583 or 14.17% for the fiscal year ended March 31, 2016. This change is mainly comprised of a decrease of \$838,961 in cash, decrease of \$113,073 in receivables and a decrease of \$205,991 in net capital assets. The cash decrease was the result of approximate \$600,000 increase in secondary treatment and \$200,000 increase in sewer line repairs. As the above table indicates, total liabilities increased by \$15,806 or 0.66% for the fiscal year ended March 31, 2016. This change is mainly comprised of an increase of \$199,014 in accounts payable (mainly from sewer line repairs) and a decrease of \$119,716 in IEPA loan from annual debt service payment.

Table 1 also indicates that total net position decreased by \$1,172,389 or 20.30% for the fiscal year ended March 31, 2016.

Table 2
Condensed Statement of Revenues, Expenses
and Changes in Net Position

	2016	2015	Dollar Change	Percent Change
Operating Revenues	\$ 2,558,230	\$ 2,667,134	\$ (108,904)	-4.08%
Nonoperating Revenues	2,661	2,846	(185)	-6.50%
Total Revenue	\$ 2,560,891	\$ 2,669,980	\$ (109,089)	-4.09%
Depreciation Expense	\$ 205,991	\$ 220,187	\$ (14,196)	-6.45%
Other Operating Expenses	3,544,919	2,872,724	672,195	23.40%
Total Expenses	\$ 3,750,910	\$ 3,092,911	\$ 657,999	21.27%
Loss Before Transfers	\$ (1,190,019)	\$ (422,931)	\$ (767,088)	181.37%
Transfers from MESD	\$ 17,630	-	\$ 17,630	0.00%
Change in Net Position	\$ (1,172,389)	\$ (422,931)	\$ (749,458)	177.21%
Beginning Net Position	5,774,732	6,197,663	(422,931)	-6.82%
Ending Net Position	\$ 4,602,343	\$ 5,774,732	\$ (1,172,389)	-20.30%

The Statement of Revenues, Expenses and Changes in Net Position identifies the various revenue and expense items which impact the change in net position.

As the above table indicates, the System's total revenues decreased by \$109,089 or 4.09% for the fiscal year ended March 31, 2016. This change is mainly comprised of a decrease in sewer fees.

As the above table indicates, the System's total expenses increased by \$657,999 or 21.27% for the fiscal year ended March 31, 2016. This change is mainly comprised of an increase in secondary treatment.

BUDGETARY HIGHLIGHTS OF THE SYSTEM

The System maintains a budget on the cash basis of accounting. Actual cash basis revenues are \$139,138 below the final budget amount, actual cash basis expenses are \$56,421 above the final budget amount, and actual nonoperating revenues are \$441 above the final budget amount. The significant variances in budgeted expenses are comprised of a decrease in actual personnel services of \$269,602, an increase in actual secondary treatment of \$441,685, and a decrease in actual fixed asset purchases of \$102,986.

For more detailed information see the Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (Cash Basis).

CAPITAL ASSETS

The System's investment in capital assets totaled \$5,633,746, net of depreciation, which is a decrease of \$205,991 or 3.53% for the fiscal year ended March 31, 2016. Capital assets include all of the System's major capital assets; including infrastructure assets, lift stations, force main, trunk lines, treatment equipment and other structures, as well as any vehicles and other equipment with a value of \$10,000 or more. A comparison of the System's capital assets over the past two fiscal years is presented in Table 3 below.

Table 3
Capital Assets

	2016	2015	Dollar Change	Percent Change
Land	\$ 191,000	\$ 191,000	\$ -	0.00 %
Buildings	3,323,798	3,323,798	-	0.00 %
Equipment	3,263,997	3,263,997	-	0.00 %
Force Main, Trunk Lines & Treatment Plant	5,918,118	5,918,118	-	0.00 %
	<u>\$ 12,696,913</u>	<u>\$ 12,696,913</u>	<u>\$ -</u>	<u>0.00 %</u>
Less, Accumulated Depreciation	(7,063,167)	(6,857,176)	(205,991)	3.00 %
Total Capital Assets, Net	<u>\$ 5,633,746</u>	<u>\$ 5,839,737</u>	<u>\$ (205,991)</u>	<u>-3.53 %</u>

Please refer to the accompanying financial statements for additional information.

LONG-TERM DEBT

As of March 31, 2016, the System's long-term debt is \$1,765,446 of which \$89,416 relates to the noncurrent portion of compensated absences and \$1,676,030 relates to the noncurrent portion of an Illinois EPA loan for emergency generators and the replacement of a 24 inch force main.

Please refer to the accompanying financial statements for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed officials considered many factors when setting the fiscal year 2017 budget. Some of the economic factors taken into account include: sewage treatment revenue and interest. Agreements exist with the State of Illinois Local Debt Recovery Program and Illinois American Water Company to assist with the collection of past due sewage treatment accounts. Expense factors include the maintenance and repair of sewer lines, secondary treatment expenses, employer paid benefits and employee salary increases.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Rosemarie Heath, District Clerk, Metro East Sanitary District, 1800 Edison Avenue, PO Box 1366, Granite City, IL 62040.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF NET POSITION

MARCH 31, 2016

	<u>BUSINESS-TYPE ACTIVITIES</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 896,960
Restricted Cash - 203 Pump Station	11,841
Accounts Receivable, Net	463,478
Accrued Interest Income	440
Capital Assets	
Land	191,000
Assets Being Depreciated, Net	5,442,746
Total Assets	<u>\$ 7,006,465</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 424,760
Due to Metro East Sanitary District	85,200
Current Portion of Long-Term Liabilities	128,716
Noncurrent Liabilities:	
Compensated Absences	89,416
Illinois EPA Loan	1,676,030
Total Liabilities	<u>\$ 2,404,122</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 3,838,000
Restricted - 203 Pump Station	11,841
Unrestricted	752,502
Total Net Position	<u>\$ 4,602,343</u>
Total Liabilities and Net Position	<u>\$ 7,006,465</u>

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES CHARGES FOR SERVICES</u>	<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION BUSINESS-TYPE ACTIVITIES</u>
PRIMARY GOVERNMENT:			
Business-Type Activities:			
Sewer	\$ 3,750,910	\$ 2,558,230	\$ (1,192,680)
Total Business-Type Activities	\$ 3,750,910	\$ 2,558,230	\$ (1,192,680)
		GENERAL REVENUES:	
		Investment Income	\$ 2,661
		Total General Revenues	\$ 2,661
		TRANSFERS FROM METRO EAST SANITARY DISTRICT	\$ 17,630
		CHANGE IN NET POSITION	\$ (1,172,389)
		NET POSITION - BEGINNING	5,774,732
		NET POSITION - ENDING	\$ 4,602,343

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF NET POSITION
PROPRIETARY FUND

MARCH 31, 2016

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 896,960
Accounts Receivable, Net	463,478
Accrued Interest Income	440
Total Current Assets	<u>\$ 1,360,878</u>

Noncurrent Assets:

Restricted Cash - 203 Pump Station	\$ 11,841
Capital Assets, Net	5,633,746
Total Noncurrent Assets	<u>\$ 5,645,587</u>

Total Assets	<u><u>\$ 7,006,465</u></u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 424,760
Due to Metro East Sanitary District	85,200
Current Portion of Long-Term Liabilities:	
Compensated Absences	9,000
Illinois EPA Loan	119,716
Total Current Liabilities	<u>\$ 638,676</u>

Noncurrent Liabilities:

Compensated Absences	\$ 89,416
Illinois EPA Loan	1,676,030
Total Noncurrent Liabilities	<u>\$ 1,765,446</u>

Total Liabilities	<u>\$ 2,404,122</u>
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NET POSITION:

Net Investment in Capital Assets	\$ 3,838,000
Restricted - 203 Pump Station	11,841
Unrestricted	752,502
Total Net Position	<u>\$ 4,602,343</u>
Total Liabilities and Net Position	<u><u>\$ 7,006,465</u></u>

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANDSOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2016

OPERATING REVENUES:

Sewer Fees	\$ 2,546,414
Lien Fees and Miscellaneous Charges	11,816
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Total Operating Revenues	\$ 2,558,230

OPERATING EXPENSES:

Personnel Services	\$ 965,659
Contractual Services	403,541
Materials and Supplies	54,169
Maintenance and Repairs	439,996
Secondary Treatment	1,678,933
Miscellaneous	2,621
Depreciation	205,991
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Total Operating Expenses	\$ 3,750,910

OPERATING LOSS	\$ (1,192,680)
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NONOPERATING REVENUES (EXPENSES):

Interest Income	2,661
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Total Nonoperating Revenues (Expenses)	\$ 2,661

LOSS BEFORE TRANSFERS	\$ (1,190,019)
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TRANSFERS FROM METRO EAST SANITARY DISTRICT	17,630
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CHANGE IN NET POSITION	\$ (1,172,389)
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NET POSITION, BEGINNING OF YEAR	5,774,732
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NET POSITION, END OF YEAR	\$ 4,602,343
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See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Receipts from Customers	\$ 2,671,303
Cash Payments to Suppliers and Others	(2,423,341)
Cash Payments to Employees for Services	(984,851)
	<hr/>
Net Cash Used by Operating Activities	\$ (736,889)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Transfers from Metro East Sanitary District	\$ 17,630
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Net Cash Provided by Noncapital Financing Activities	\$ 17,630

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Repayments on Illinois EPA Loan	\$ (119,716)
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Net Cash Used by Capital and Related Financing Activities	\$ (119,716)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Earned on Investments	\$ 2,941
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Net Cash Provided by Investing Activities	\$ 2,941

NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (836,034)
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<hr/> 1,744,835
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CASH AND CASH EQUIVALENTS - END OF YEAR	<hr/> <hr/> 908,801
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Loss	\$ (1,192,680)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	205,991
Changes in Assets and Liabilities	
(Increase) Decrease in Assets	
Accounts Receivable, Net	113,073
Due from Metro East Sanitary District	1,205
Increase (Decrease) in Liabilities	
Accounts Payable	199,014
Due to Metro East Sanitary District	(44,300)
Compensated Absences	(19,192)
	<hr/>
Net Cash Used by Operating Activities	\$ (736,889)

CASH AND CASH EQUIVALENTS ACCOUNTED FOR AS FOLLOWS:

Unrestricted Cash and Cash Equivalents	\$ 896,960
Restricted Cash and Cash Equivalents	11,841
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	\$ 908,801

See accompanying notes to the basic financial statements.

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (the "System") is a component unit of the Metro East Sanitary District. The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

A. Reporting Entity

The System has developed criteria to determine whether outside agencies with activities, which benefit the System, should be included within its financial reporting entity. The criteria for including organizations within the System's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Based on these criteria, the System is considered a blended component unit of the Metro East Sanitary District (the "District") and there are no component units in the reporting entity.

The District issues a publicly available financial report that includes financial statements and supplemental information. That report may be obtained by writing to the Metro East Sanitary District, P. O. Box 1366, Granite City, Illinois 62040.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information for the System as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) operating grants and standard revenues, if any, that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Fund Accounting

The accounts of the System are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Funds are classified into three categories: governmental, proprietary, and fiduciary. The System is classified as a proprietary fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The System does not have any internal service funds.

The System reports the following major proprietary fund:

Sewerage Fund - The Sewerage Fund is used to account for the operation of the sewer utilities owned by the System.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds. Revenues and additions are recorded when earned and expenses and deductions are reported when a liability is incurred. Grants and similar items, if any, are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Operating revenues/expenses include all revenues/expenses directly related to providing sewer services. Incidental revenues/expenses are reported as nonoperating.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the System's sewerage (proprietary) fund are charges to customers for sales and services and are reported net of discounts and bad debts. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures. Actual results could vary from estimates that were used.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of one year or less from the date of acquisition.

G. Accounts Receivable and Allowance for Doubtful Accounts

All receivables are reported net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The System's allowance for doubtful accounts was \$400,000 for the fiscal year ending March 31, 2016.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., treatment facilities, lift stations and similar items), are reported in the business-type activities columns in the government-wide financial statements. Capital assets are defined by the System as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Equipment	
Pumps and controls	50
Office equipment	10
Force main, trunk lines and treatment plant	75

I. Compensated Absences (Accumulated Unpaid Vacation and Sick Pay)

The System has a formal policy, which allows employees to accumulate unused vacation and sick leave. Due to the fact that these accumulations are payable to the employee upon separation from service, the accompanying financial statements include an accrual for these unpaid amounts. Amounts were calculated by using pay rates in effect at year-end.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term obligations are reported as liabilities.

K. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the System applies the expense to restricted resources first.

L. Interfund Activity

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are treated as due to and from Metro East Sanitary District. All other interfund transactions are treated as transfers.

M. Sewer Fees

Sewer fees are reported net of bad debt write-offs and changes in the allowance for doubtful accounts.

NOTE 2: DEPOSITS AND INVESTMENTS

The System is authorized by state statute to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the United States of America, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the highest classifications by at least two standard rating services and the Illinois Funds Investment Pool. The System does not enter into any reverse repurchase agreements.

At March 31, 2016 the System had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u> <u>Less than 1 year</u>
Cash and Cash Equivalents:		
External Investment Pool - Illinois Funds	<u>\$ 7,956</u>	<u>\$ 7,956</u>

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS (CONT'D)

Reconciliation to financial statements:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Exhibit "A"			
Cash and Cash Equivalents	\$ 889,004	\$ 7,956	\$ 896,960
Restricted Cash	<u>11,841</u>	<u>-</u>	<u>11,841</u>
Total Carrying Amounts	<u>\$ 900,845</u>	<u>\$ 7,956</u>	<u>\$ 908,801</u>

The State Investment Pool is a 2a7-like pool. Investments in Illinois Funds are valued at Illinois Funds' share price, the price for which the investment could be sold. The difference between fair value and the value at Illinois Funds' share price is immaterial.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity date will have a greater sensitivity of its fair value to changes in market interest rates. The System has a formal investment policy, although that policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the System's certificates of deposit have maturity dates of one year or less.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of March 31, 2016, the System's investment in the external investment pool was rated AAAM by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's deposits that are insured under FDIC is \$250,000 and any remaining balances in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent third party institution in the name of the System. Cash held in banks were 100% insured by the FDIC or covered by pledged collateral at March 31, 2016.

The System's deposits in the state investment pool are fully collateralized. The individual participants maintain separate deposit accounts representing a proportionate share of the pool assets and its respective collateral; therefore no collateral is identified with each individual participant's account.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 191,000	\$ -	\$ -	\$ 191,000
Capital Assets Being Depreciated				
Buildings	\$ 3,323,798	\$ -	\$ -	\$ 3,323,798
Equipment	3,263,997	-	-	3,263,997
Force Main, Trunk Lines and Treatment Plant	5,918,118	-	-	5,918,118
Total Capital Assets Being Depreciated	\$ 12,505,913	\$ -	\$ -	\$ 12,505,913
Less Accumulated Depreciation	6,857,176	205,991	-	7,063,167
Total Capital Assets Being Depreciated, Net	\$ 5,648,737	\$ (205,991)	\$ -	\$ 5,442,746
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 5,839,737</u>	<u>\$ (205,991)</u>	<u>\$ -</u>	<u>\$ 5,633,746</u>

Depreciation expense is charged to business-type activities as follows:

BUSINESS-TYPE ACTIVITIES	
Sewerage Fund	<u>\$ 205,991</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 205,991</u>

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 4: LONG-TERM DEBT

Summary and Discussion Relating to Debt Recorded on Accompanying Financial Statements

The following is a summary of changes in long-term debt for the year ended March 31, 2016, and the related fund where this debt is recorded on the accompanying financial statements:

<u>Description and Purpose</u>	<u>Balance April 1, 2015</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>Balance March 31, 2016</u>	<u>Due Within One Year</u>
BUSINESS-TYPE ACTIVITIES					
Illinois EPA Loan	\$ 1,915,462	\$ -	\$ 119,716	\$ 1,795,746	\$ 119,716
Compensated Absences					
Accumulated Vacation Pay	50,917	-	12,658	38,259	3,500
Accumulated Sick Pay	66,691	-	6,532	60,159	5,500
Total Business-Type Activities	<u>\$ 2,033,070</u>	<u>\$ -</u>	<u>\$ 138,906</u>	<u>\$ 1,894,164</u>	<u>\$ 128,716</u>

IEPA Loan #1

During the fiscal year ended March 31, 2010, the District entered into a loan/grant agreement with the Illinois Environmental Protection Agency for construction of a 24 inch replacement sewer main and emergency generators in the amount of \$2,317,146. The loan is a 20 year loan with an annual fixed rate of 0%.

The annual requirements to amortize the IEPA loan as of March 31, 2016, are as follows:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 119,716	\$ -	\$ 119,716
2018	119,716	-	119,716
2019	119,716	-	119,716
2020	119,716	-	119,716
2021	119,716	-	119,716
2022-2026	598,583	-	598,583
2027-2031	598,583	-	598,583
	<u>\$ 1,795,746</u>	<u>\$ -</u>	<u>\$ 1,795,746</u>

NOTE 5: RETIREMENT COMMITMENTS

Illinois Municipal Retirement Fund

The System is a participating member of the Illinois Municipal Retirement Fund. All employees of the System are eligible to become members of this plan. Funding commitments and other related information relative to the plan are available in the financial statements of the Metro East Sanitary District, 1801 Madison Avenue, Granite City, Illinois 62040.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016

NOTE 6: RELATED PARTY TRANSACTIONS

Lease of Office Space

The System leases office space on a monthly basis from the Metro East Sanitary District. Currently, monthly lease payments are \$1,000. Office space rental was \$12,000 for the fiscal year ended March 31, 2016. No formal lease has been executed between the related parties.

Due to Metro East Sanitary District

As of March 31, 2016, the System had an amount due to the Metro East Sanitary District totaling \$85,200. This account represents various insurance related costs paid by the District's Liability Insurance Fund.

Transfers from Metro East Sanitary District

For the fiscal year ended March 31, 2016, transfers from Metro East Sanitary District totaled \$17,630. This amount represents accrued compensated absences for two employees that were transferred to Metro East Sanitary District at the end of October 2015.

NOTE 7: RESTRICTED ASSETS - 203 PUMP STATION

On July 23, 1997, the Lansdowne System entered into an agreement to purchase a sanitary pumping station located on Gateway International Race Track real estate adjacent to Highway 203, north of Interstate 70 in East St. Louis, Illinois for \$259,895.29. The amortized cost of the station is to be payable monthly by the owners of the race track and/or the occupant of the current race track property. This loan was paid during the fiscal year ended March 31, 1999.

In accordance with an additional agreement related to the above station, all current and any future users of the pump station are responsible for the cost of maintenance. The System is responsible for maintaining the station and is to bill users for the related costs. The accompanying financial statements account for these accumulations as restricted assets totaling \$11,841 at March 31, 2016.

NOTE 8: RISK MANAGEMENT

Workers' compensation and general liability losses are covered by commercial insurance. There have been no significant reductions in these insurance coverages during the year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated the effect of subsequent events on the financial statements through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>LAST FIVE FISCAL YEARS</u>				
	<u>2016</u>	<u>2015</u>	<u>RESTATED*</u> <u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:					
Sewerage Treatment Charges	\$ 2,546,414	\$ 2,656,139	\$ 2,827,266	\$2,883,545	\$2,719,188
Court Costs/Lien Fees/Other	11,816	10,995	12,217	46,017	24,064
Total Operating Revenues	\$ 2,558,230	\$ 2,667,134	\$ 2,839,483	\$2,929,562	\$2,743,252
OPERATING EXPENSES	\$ 3,750,910	\$ 3,109,005	\$ 2,805,043	\$2,926,602	\$3,238,699
Total Operating Income (Loss)	<u>\$(1,192,680)</u>	<u>\$ (441,871)</u>	<u>\$ 34,440</u>	<u>\$ 2,960</u>	<u>\$ (495,447)</u>
NONOPERATING REVENUES (EXPENSES):					
Interest Income	\$ 2,661	\$ 2,846	\$ 2,755	\$ 3,895	\$ 7,118
Loss on Sale of Stock	-	-	(1,966)	-	-
Sale of Land/Scrap	-	-	-	-	683,720
Total Nonoperating Revenues (Expenses)	<u>\$ 2,661</u>	<u>\$ 2,846</u>	<u>\$ 789</u>	<u>\$ 3,895</u>	<u>\$ 690,838</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$(1,190,019)</u>	<u>\$ (439,025)</u>	<u>\$ 35,229</u>	<u>\$ 6,855</u>	<u>\$ 195,391</u>
TRANSFERS FROM METRO EAST SANITARY DISTRICT	<u>\$ 17,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CHANGE IN NET POSITION	<u><u>\$(1,172,389)</u></u>	<u><u>\$ (439,025)</u></u>	<u><u>\$ 35,229</u></u>	<u><u>\$ 6,855</u></u>	<u><u>\$ 195,391</u></u>

* 2014 was restated to correct accrued sick and vacation in the amount of \$36,552.

See accompanying independent auditor's report.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE SEWERAGE SYSTEM
ST. CLAIR AND MADISON COUNTIES, ILLINOIS

SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (CASH BASIS)

FOR THE YEAR ENDED MARCH 31, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING REVENUES:		
Sewer Fees	\$ 2,800,000	\$ 2,659,045
Lien Fees and Miscellaneous Revenues	10,000	11,817
Total Operating Revenues	<u>\$ 2,810,000</u>	<u>\$ 2,670,862</u>
OPERATING EXPENSES:		
Personnel Services:		
Salaries	\$ 875,000	\$ 677,768
Employer's Payroll Expense		
FICA	67,000	51,396
IMRF	84,000	64,079
Unemployment Compensation	10,000	4,797
Uniform Allowance	2,000	910
Group Insurance	225,000	190,848
Retiree Medical Insurance	-	3,600
Total Personnel Services	<u>\$ 1,263,000</u>	<u>\$ 993,398</u>
Contractual Services:		
Utilities	\$ 100,000	\$ 142,134
Telephone	6,000	5,843
Auditing and Accounting Fees	13,000	10,800
Engineering Fees	5,000	26,915
Legal Fees	10,000	11,665
Printing and Publishing	3,500	2,320
Credit Card Chargeback - E-pay	12,500	12,265
Insurance	140,000	129,500
Office Space Rental	12,000	12,000
Filing and Lien Fees	12,000	10,710
Illinois EPA Permits	6,000	5,728
Computer System, Support	11,000	11,356
Website Related Costs	200	153
Computer System Training	1,500	-
Collection Fees	17,000	14,017
Alarm	3,000	2,553
Lift Station Monitoring	2,500	995
Easements	500	850
Water Usage and Parcel Data Fees	7,000	6,312
Water Turn-Off Fees	25,000	17,625
Credit Reports	2,500	3,615
Equipment Lease Agreements	4,000	3,095
Water Testing Fees	8,500	8,478
203 Lift Station Expenses	-	6,447
Total Contractual Services	<u>\$ 402,700</u>	<u>\$ 445,376</u>

See accompanying independent auditor's report.

(continued on next page)

SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (CASH BASIS)
(CONTINUED)

FOR THE YEAR ENDED MARCH 31, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING EXPENSES (continued):		
Materials and Supplies:		
Office Supplies	\$ 12,000	\$ 3,744
Postage	52,000	48,122
Computer Supplies	4,000	3,206
Total Materials and Supplies	<u>\$ 68,000</u>	<u>\$ 55,072</u>
Maintenance and Repairs		
Sewer Line	\$ 200,000	\$ 191,621
Building	30,000	8,804
Equipment	50,000	36,574
Vehicle	10,000	14,161
Total Maintenance and Repairs	<u>\$ 290,000</u>	<u>\$ 251,160</u>
Secondary Treatment	\$ 1,200,000	\$ 1,641,685
Miscellaneous	5,000	1,416
Economic Stimulus Loan Repayments	119,716	119,716
Fixed Asset Purchases	<u>105,000</u>	<u>2,014</u>
Total Operating Expenses	<u>\$ 3,453,416</u>	<u>\$ 3,509,837</u>
Operating Income (Loss)	\$ (643,416)	\$ (838,975)
NONOPERATING REVENUES:		
Interest Income	<u>2,500</u>	<u>2,941</u>
Decrease in Net Position	<u><u>\$ (640,916)</u></u>	<u><u>\$ (836,034)</u></u>
Reconciliation to GAAP Basis Financial Statements:		
Decrease in Net Position (Cash Basis)		\$ (836,034)
Adjustments to Reconcile Decrease in Net Position - Cash Basis to GAAP Basis		
Increases (Decreases) in Assets Which are Not Recorded Using the Cash Basis		
Depreciation		(205,991)
Accounts Receivable, Net		(113,073)
Due from Metro East Sanitary District		(1,205)
Accrued Interest Income		(280)
(Increases) Decreases in Liabilities Which Are Not Recorded Using the Cash Basis		
Accounts Payable		(199,014)
Due to Metro East Sanitary District		44,300
Compensated Absences		19,192
Cash Payments Not Considered Expenses on GAAP Basis Statements		
Repayments on Illinois EPA Loan		<u>119,716</u>
Decrease in Net Position - Exhibit "D"		<u><u>\$ (1,172,389)</u></u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Metro East Sanitary District -
Lansdowne Trunk - Madison and
Venice Sewerage System
St. Clair and Madison Counties, Illinois

We have audited the accompanying financial statements of the business-type activities and the major fund of the Metro East Sanitary District, Lansdowne Trunk - Madison and Venice Sewerage System (the "System"), a component unit of Metro East Sanitary District, St. Clair and Madison Counties, Illinois, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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