

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

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2018

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

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-2
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	3-7
BASIC FINANCIAL STATEMENTS	
<u>Exhibit</u>	
A Statement of Net Position - Proprietary Fund	8
B Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	9
C Statement of Cash Flows - Proprietary Fund	10
Notes to Financial Statements	11-17
OTHER INFORMATION	
<u>Schedule</u>	
1 Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual (Cash Basis)	18-19



ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON

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 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, 2018, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Basis for Qualified Opinion

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 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 Opinion” 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, 2018, 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

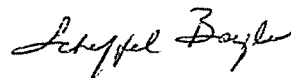
Required Supplementary Information

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 an opinion 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 31, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2018

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, 2018. 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.

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 improved during the last fiscal year. The System's net position reflects the difference between its assets and liabilities.

NET POSITION

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

Table 1
Condensed Statement of Net Position

	2018	2017	Dollar Change	Percent Change
Assets				
Current and Other Assets	\$ 1,183,107	\$ 614,895	\$ 568,212	92.41%
Capital Assets, Net	5,350,389	5,477,064	(126,675)	-2.31%
Total Assets	<u>\$ 6,533,496</u>	<u>\$ 6,091,959</u>	<u>\$ 441,537</u>	<u>7.25%</u>
Liabilities				
Current Liabilities	\$ 420,365	\$ 385,312	\$ 35,053	9.10%
Long-Term Liabilities	1,527,138	1,653,213	(126,075)	-7.63%
Total Liabilities	<u>\$ 1,947,503</u>	<u>\$ 2,038,525</u>	<u>\$ (91,022)</u>	<u>-4.47%</u>
Net Position				
Net Investment in				
Capital Assets	\$ 3,794,075	\$ 3,801,034	\$ (6,959)	-0.18%
Restricted	20,713	18,417	2,296	12.47%
Unrestricted	771,205	233,983	537,222	229.60%
Total Net Position	<u>\$ 4,585,993</u>	<u>\$ 4,053,434</u>	<u>\$ 532,559</u>	<u>13.14%</u>
Total Liabilities and Net Position	<u>\$ 6,533,496</u>	<u>\$ 6,091,959</u>	<u>\$ 441,537</u>	<u>7.25%</u>

For more detailed information see the Statement of Net Position.

As the above table indicates, total assets increased by \$441,537 or 7.25% for the fiscal year ended March 31, 2018. This change is comprised of an increase of \$199,195 in cash, increase of \$17,781 in customer receivables, increase of \$351,236 in other receivable, and a decrease of \$126,675 in net capital assets. Cash mainly increased due to a \$98,372 cash operating income plus \$100,000 loan from Metro East Sanitary District. Other receivable increased due to a \$351,236 overpayment to Granite City Wastewater Treatment Plant. As the above table indicates, total liabilities decreased by \$91,022 or 4.47% for the fiscal year ended March 31, 2018. This change is mainly comprised of a decrease of \$119,716 in IEPA loan from semi-annual principal repayments. Table 1 also indicates that total net position increased by \$532,559 or 13.14% for the fiscal year ended March 31, 2018.

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

	2018	2017	Dollar Change	Percent Change
Operating Revenues	\$ 3,598,902	\$ 2,871,785	\$ 727,117	25.32%
Nonoperating Revenues	823	1,074	(251)	-23.37%
Total Revenue	\$ 3,599,725	\$ 2,872,859	\$ 726,866	25.30%
Depreciation Expense	\$ 126,675	\$ 156,682	\$ (30,007)	-19.15%
Other Operating Expenses	2,952,025	3,139,132	(187,107)	-5.96%
Total Expenses	\$ 3,078,700	\$ 3,295,814	\$ (217,114)	-6.59%
Income (Loss) Before Transfers	\$ 521,025	\$ (422,955)	\$ 943,980	-223.19%
Transfers from MESD	\$ 11,534	\$ -	\$ 11,534	0.00%
Change in Net Position	\$ 532,559	\$ (422,955)	\$ 955,514	-225.91%
Beginning Net Position	4,053,434	4,476,389	(422,955)	-9.45%
Ending Net Position	\$ 4,585,993	\$ 4,053,434	\$ 532,559	13.14%

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 increased by \$726,866 or 25.30% for the fiscal year ended March 31, 2018. This change is mainly comprised of an increase in sewer fees from a rate increase (effective January 1, 2017) and fewer billing adjustments/write-offs.

As the above table indicates, the System's total expenses decreased by \$217,114 or 6.59% for the fiscal year ended March 31, 2018. This change is mainly comprised of a decrease in secondary treatment fees (decrease in flow meter readings) of \$521,957 offset by an increase in maintenance and repairs (increase in sewer repairs) of \$336,535.

BUDGETARY HIGHLIGHTS OF THE SYSTEM

The System maintains a budget on the cash basis of accounting. Actual cash basis revenues are \$371,121 above the final budget amount, actual cash basis expenses are \$397,051 below the final budget amount, and actual nonoperating revenues are \$623 above the final budget amount. The significant variances in budgeted expenses are comprised of a decrease in actual personnel services of \$176,749, a decrease in actual secondary treatment of \$364,900, and an increase in maintenance and repairs of \$134,338.

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 \$5,350,389, net of depreciation, which is a decrease of \$126,675 or 2.31% for the fiscal year ended March 31, 2018. 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

	2018	2017	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	(7,346,524)	(7,219,849)	(126,675)	1.75%
	<u>\$ 5,350,389</u>	<u>\$ 5,477,064</u>	<u>\$ (126,675)</u>	<u>-2.31%</u>

Please refer to the accompanying financial statements for additional information.

LONG-TERM DEBT

As of March 31, 2018, the System's long-term debt is \$1,527,138 of which \$90,540 relates to the noncurrent portion of compensated absences and \$1,436,598 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 2019 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 Kim Hogue, District Clerk, Metro East Sanitary District, 1800 Edison Avenue, PO Box 1366, Granite City, IL 62040.

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

STATEMENT OF NET POSITION
PROPRIETARY FUND

MARCH 31, 2018

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 407,198
Accounts Receivable, Net	403,960
Other Receivable - Granite City Sewer Treatment	351,236
Total Current Assets	<u>\$ 1,162,394</u>

Noncurrent Assets:

Restricted Cash - 203 Pump Station	\$ 20,713
Capital Assets, Net	5,350,389
Total Noncurrent Assets	<u>\$ 5,371,102</u>

Total Assets	<u>\$ 6,533,496</u>
--------------	---------------------

LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 156,749
Due to Metro East Sanitary District	143,900
Current Portion of Long-Term Liabilities:	
Illinois EPA Loan	<u>119,716</u>

Total Current Liabilities	<u>\$ 420,365</u>
---------------------------	-------------------

Noncurrent Liabilities:

Compensated Absences	\$ 90,540
Illinois EPA Loan	1,436,598
Total Noncurrent Liabilities	<u>\$ 1,527,138</u>

Total Liabilities	<u>\$ 1,947,503</u>
-------------------	---------------------

NET POSITION:

Net Investment in Capital Assets	\$ 3,794,075
Restricted - 203 Pump Station	20,713
Unrestricted	<u>771,205</u>

Total Net Position	<u>\$ 4,585,993</u>
--------------------	---------------------

Total Liabilities and Net Position	<u>\$ 6,533,496</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 REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2018

OPERATING REVENUES:

Sewer Fees	\$ 3,589,410
Lien Fees and Miscellaneous Charges	9,492
Total Operating Revenues	\$ 3,598,902

OPERATING EXPENSES:

Personnel Services	\$ 800,464
Contractual Services	322,586
Materials and Supplies	36,156
Maintenance and Repairs	533,114
Secondary Treatment	1,169,618
Special Service Area	89,174
Miscellaneous	913
Depreciation	126,675
Total Operating Expenses	\$ 3,078,700

OPERATING INCOME	\$ 520,202
------------------	------------------

NONOPERATING REVENUES (EXPENSES):

Interest Income	\$ 823
Total Nonoperating Revenues (Expenses)	\$ 823

INCOME BEFORE TRANSFERS	\$ 521,025
-------------------------	------------

TRANSFERS FROM METRO EAST SANITARY DISTRICT	11,534
---	--------------

CHANGE IN NET POSITION	\$ 532,559
------------------------	------------

NET POSITION, BEGINNING OF YEAR	4,053,434
---------------------------------	-----------------

NET POSITION, END OF YEAR	\$ 4,585,993
---------------------------	--------------------------

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 CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Receipts from Customers	\$ 3,581,121
Cash Payments to Suppliers and Others	(2,558,744)
Cash Payments to Employees for Services	(815,823)
Net Cash Provided by Operating Activities	\$ 206,554

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Loan Proceeds from Metro East Sanitary District	\$ 100,000
Transfers from Metro East Sanitary District	11,534
Net Cash Provided by Noncapital and Related Financing Activities	\$ 111,534

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

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

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Earned on Investments	\$ 823
Net Cash Provided by Investing Activities	\$ 823

NET INCREASE IN CASH AND CASH EQUIVALENTS

\$ 199,195

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

228,716

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 427,911

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income	\$ 520,202
Adjustments to Reconcile Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Depreciation	126,675
Changes in Assets and Liabilities	
(Increase) Decrease in Assets	
Accounts Receivable, Net	(369,017)
Increase (Decrease) in Liabilities	
Accounts Payable	(25,947)
Due to Metro East Sanitary District	(30,000)
Compensated Absences	(15,359)
Net Cash Provided by Operating Activities	\$ 206,554

CASH AND CASH EQUIVALENTS ACCOUNTED FOR AS FOLLOWS:

Unrestricted Cash and Cash Equivalents	\$ 407,198
Restricted Cash and Cash Equivalents	20,713
	\$ 427,911

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, 2018

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. Measurement Focus and Basis of Accounting

The System reports its activities as a proprietary fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the System is that the cost of providing sewer to its service area on a continuing basis be financed or recovered primarily through user charges, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

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 proprietary 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.

C. 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
LANDSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

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

D. Cash and Cash Equivalents

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

E. 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, 2018.

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., treatment facilities, lift stations and similar items), 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 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

G. 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.

H. Long-Term Obligations

Long-term obligations are reported as liabilities in the accompanying financial statements.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

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

I. 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.

J. 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.

K. 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, 2018, 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	\$ 96,385	\$ 96,385

METRO EAST SANITARY DISTRICT
LANSLOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

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	\$ 310,813	\$ 96,385	\$ 407,198
Restricted Cash	<u>20,713</u>	<u>-</u>	<u>20,713</u>
Total Carrying Amounts	<u>\$ 331,526</u>	<u>\$ 96,385</u>	<u>\$ 427,911</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.

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. The state investment pool used by the System has earned Standard and Poor's highest rating (AAAm).

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, 2018.

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, 2018

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
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	7,219,849	126,675	-	7,346,524
Total Capital Assets Being Depreciated, Net	\$ 5,286,064	\$ (126,675)	\$ -	\$ 5,159,389
CAPITAL ASSETS, NET	<u>\$ 5,477,064</u>	<u>\$ (126,675)</u>	<u>\$ -</u>	<u>\$ 5,350,389</u>

NOTE 4: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2018:

Description and Purpose	Balance April 1, 2017	Additions	Deductions	Balance March 31, 2018	Due Within One Year
Illinois EPA Loan	\$ 1,676,030	\$ -	\$ 119,716	\$ 1,556,314	\$ 119,716
Compensated Absences					
Accumulated Vacation Pay	42,325	1,306	-	43,631	-
Accumulated Sick Pay	63,574	-	16,665	46,909	-
Total	<u>\$ 1,781,929</u>	<u>\$ 1,306</u>	<u>\$ 136,381</u>	<u>\$ 1,646,854</u>	<u>\$ 119,716</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%.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

NOTE 4: LONG-TERM DEBT (CONT'D)

The annual requirements to amortize the IEPA loan as of March 31, 2018, are as follows:

Year Ending March 31,	Principal	Interest	Total
2019	\$ 119,716	\$ -	\$ 119,716
2020	119,716	-	119,716
2021	119,716	-	119,716
2022	119,716	-	119,716
2023	119,716	-	119,716
2024-2028	598,583	-	598,583
2029-2031	359,151	-	359,151
	<u>\$ 1,556,314</u>	<u>\$ -</u>	<u>\$ 1,556,314</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.

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, 2018. No formal lease has been executed between the related parties.

Due to Metro East Sanitary District

As of March 31, 2018, the System had an amount due to the Metro East Sanitary District totaling \$143,900. Of this total, \$43,900 represents various insurance related costs paid by the District's Liability Insurance Fund and the remaining \$100,000 was for a general loan to cover cash flow shortages.

METRO EAST SANITARY DISTRICT
LANSDOWNE TRUNK - MADISON AND VENICE
SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

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. 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 \$20,713 at March 31, 2018.

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
LANSLOWNE 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, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING REVENUES:		
Sewer Fees	\$ 3,200,000	\$ 3,571,629
Lien Fees and Miscellaneous Revenues	10,000	9,492
Total Operating Revenues	<u>\$ 3,210,000</u>	<u>\$ 3,581,121</u>
OPERATING EXPENSES:		
Personnel Services:		
Salaries	\$ 680,000	\$ 559,276
Employer's Payroll Expense		
FICA	52,000	42,047
IMRF	61,000	50,171
Unemployment Compensation	7,000	2,395
Uniform and Boot Allowance	1,200	714
Group Insurance	180,000	149,848
Total Personnel Services	<u>\$ 981,200</u>	<u>\$ 804,451</u>
Contractual Services:		
Utilities	\$ 130,000	\$ 85,658
Telephone	6,000	4,402
Auditing and Accounting Fees	18,000	16,780
Engineering Fees	40,000	42,768
Legal Fees	10,000	12,515
Printing and Publishing	3,000	1,827
Credit Card Chargeback - E-pay	10,000	9,876
Insurance	90,000	73,900
Office Space Rental	12,000	12,000
Filing and Lien Fees	10,000	5,919
Sewerage Permits	8,200	5,000
Computer System Support	5,000	12,063
Computer System Training	1,500	-
Website Related Costs	800	557
Collection Fees	10,000	329
Alarm	3,000	1,658
Lift Station/Flow Meter Monitoring	5,000	2,738
Easements	1,000	450
Water Usage and Parcel Data Fees	7,000	5,423
Water Turn-Off Fees	25,000	24,895
Credit Reports	5,000	3,943
Equipment Lease Agreements	3,100	3,284
Water Testing Fees	11,000	11,048
203 Lift Station Expenses	-	1,689
Total Contractual Services	<u>\$ 414,600</u>	<u>\$ 338,722</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, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>
OPERATING EXPENSES (continued):		
Materials and Supplies:		
Office Supplies	\$ 4,000	\$ 4,598
Postage	25,000	27,987
Computer Supplies	7,500	3,596
Total Materials and Supplies	<u>\$ 36,500</u>	<u>\$ 36,181</u>
Maintenance and Repairs		
Sewer Line	\$ 350,000	\$ 484,338
Building	20,000	24,755
Equipment	40,000	24,118
Vehicle	10,000	5,219
Total Maintenance and Repairs	<u>\$ 420,000</u>	<u>\$ 538,430</u>
Secondary Treatment	\$ 1,900,000	\$ 1,535,100
Special Service Area	-	108,281
Miscellaneous	2,500	913
Economic Stimulus Loan Repayments	120,000	119,716
Fixed Asset Purchases	5,000	955
Total Operating Expenses	<u>\$ 3,879,800</u>	<u>\$ 3,482,749</u>
Operating Income (Loss)	\$ (669,800)	\$ 98,372
NONOPERATING REVENUES:		
Interest Income	200	823
Increase (Decrease) in Net Position	<u>\$ (669,600)</u>	<u>\$ 99,195</u>
Reconciliation to GAAP Basis Financial Statements:		
Increase in Net Position (Cash Basis)		\$ 99,195
Adjustments to Reconcile Increase in Net Position - Cash Basis to GAAP Basis		
Increases (Decreases) in Assets Which are Not Recorded Using the Cash Basis		
Depreciation		(126,675)
Accounts Receivable, Net		369,017
(Increases) Decreases in Liabilities Which Are Not Recorded Using the Cash Basis		
Accounts Payable		25,947
Due to Metro East Sanitary District		30,000
Compensated Absences		15,359
Cash Payments Not Considered Expenses on GAAP Basis Statements		
Repayments on Illinois EPA Loan		<u>119,716</u>
Increase in Net Position - Exhibit "B"		<u>\$ 532,559</u>

See accompanying independent auditor's report.