

**SOLID WASTE AGENCY OF  
LAKE COUNTY, ILLINOIS**

Gurnee, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended November 30, 2015 and 2014

**SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS**  
Gurnee, Illinois

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As of and for the Years Ended November 30, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Solid Waste Agency of Lake County  
Gurnee, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Solid Waste Agency of Lake County, Illinois (SWALCO), as of and for the years ended November 30, 2015 and 2014, and the related notes to the financial statements, which comprise the basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SWALCO'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 SWALCO'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.

To the Board Directors  
Sold Waste Agency of Lake County

### ***Basis for Qualified Opinion***

SWALCO has implemented GASB 68: *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27* and GASB 71: *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, to account for their pension activities associated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple employer defined pension plan in which SWALCO participates. Based on the December 31, 2014 measurement date, SWALCO reported a net pension asset, deferred outflows of resources, and deferred inflows or resources of \$673,832, \$86,424, and \$79,563, respectively, on the Statement of Net Position as of November 30, 2015. The related pension expense of \$119,674 is included in the Statement of Changes in Net Position for the year then ended. This information was calculated and reported in an actuarial report that utilized preliminary plan data provided to the actuary by IMRF. A subsequent audited financial statement of the fiduciary net position of each individual IMRF employer revealed significant differences between the net position used by the actuary and the net position reported in the audited financial statement. The audited plan net position is \$284,023 lower than that used by the actuary. This difference would affect the carrying amounts of the aforementioned balances. Therefore, we are unable to obtain sufficient appropriate audit evidence about the carrying amount of SWALCO's net pension asset, deferred outflows of resources, and deferred inflows of resources with IMRF as of November 30, 2015 and the net pension expense associated with IMRF for the year then ended. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of SWALCO as of November 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in the Note 1, SWALCO has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective December 1, 2014. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the 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.

To the Board Directors  
Sold Waste Agency of Lake County

SWALCO has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 7, 2016

# SOLID WASTE AGENCY OF LAKE COUNTY

## STATEMENTS OF NET POSITION As of November 30, 2015 and 2014

<b>ASSETS</b>		
	2015	2014
<b>CURRENT ASSETS</b>		
Cash	\$ 1,836,654	\$ 2,267,808
Receivables	131,433	194,915
Prepaid insurance	21,407	21,673
Total Current Assets	1,989,494	2,484,396
<b>NONCURRENT ASSETS</b>		
Designated assets		
Equipment replacement fund	500,000	104,232
Restricted assets		
Net pension asset	673,832	-
Capital Assets		
Plant in service	2,154,946	2,154,946
Accumulated depreciation	(1,086,986)	(1,024,942)
Total Noncurrent Assets	2,241,792	1,234,236
<b>TOTAL ASSETS</b>	4,231,286	3,718,632
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pension	86,424	-
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	35,197	67,387
Accrued payroll	10,635	9,061
Total Current Liabilities	45,832	76,448
Total Liabilities	45,832	76,448
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pension	79,563	-
<b>NET POSITION</b>		
Net investment in capital assets	1,067,960	1,130,004
Restricted for:		
Pension	673,832	-
Unrestricted	2,450,523	2,512,180
<b>TOTAL NET POSITION</b>	\$ 4,192,315	\$ 3,642,184

See accompanying notes to financial statements.

## SOLID WASTE AGENCY OF LAKE COUNTY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
County surcharge - current	\$ 723,982	\$ 708,278
Member fees	277,650	237,170
Other miscellaneous	<u>105,168</u>	<u>232,559</u>
Total Operating Revenues	<u>1,106,800</u>	<u>1,178,007</u>
<b>OPERATING EXPENSES</b>		
Personnel services	407,826	403,571
Operational services	35,957	43,154
Contractual services	734,264	526,622
Buildings and equipment maintenance	171	3,273
Pension expense	119,674	-
Depreciation	<u>62,044</u>	<u>62,045</u>
Total Operating Expenses	<u>1,359,936</u>	<u>1,038,665</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(253,136)</u>	<u>139,342</u>
<b>NONOPERATING INCOME</b>		
Investment income	<u>2,900</u>	<u>9,131</u>
<b>CHANGE IN NET POSITION</b>	(250,236)	148,473
NET POSITION - Beginning of Year	3,642,184	3,493,711
Cumulative effect of a change in accounting principle	<u>800,367</u>	<u>-</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,192,315</u>	<u>\$ 3,642,184</u>

See accompanying notes to financial statements.

## SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENTS OF CASH FLOWS  
For the Years Ended November 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from members and the County	\$ 1,167,944	\$ 1,166,127
Paid to suppliers for goods and services	(800,742)	(597,254)
Paid to employees for services	<u>(407,826)</u>	<u>(403,571)</u>
Net Cash Flows From Operating Activities	<u>(40,624)</u>	<u>165,302</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<u>5,238</u>	<u>4,013</u>
 <b>Net Change in Cash and Cash Equivalents</b>	 (35,386)	 169,315
 CASH AND CASH EQUIVALENTS – Beginning of Year	 <u>2,372,040</u>	 <u>2,202,725</u>
 <b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	 <u><u>\$ 2,336,654</u></u>	 <u><u>\$ 2,372,040</u></u>
 <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (253,136)	\$ 139,342
Noncash items included in operating income		
Depreciation	62,044	62,045
Changes in assets and liabilities		
Other receivables	61,144	(11,880)
Prepaid insurance	266	(1,563)
Accounts payable	(32,190)	(23,014)
Accrued payroll	1,574	372
Pension related deferrals and liabilities	<u>119,674</u>	<u>-</u>
 <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	 <u><u>\$ (40,624)</u></u>	 <u><u>\$ 165,302</u></u>
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION</b>		
Cash	\$ 1,836,654	\$ 2,267,808
Equipment replacement fund	<u>500,000</u>	<u>104,232</u>
 <b>CASH AND CASH EQUIVALENTS</b>	 <u><u>\$ 2,336,654</u></u>	 <u><u>\$ 2,372,040</u></u>

See accompanying notes to financial statements.



# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of Solid Waste Agency of Lake County, Illinois (“SWALCO” or the “Agency”), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by SWALCO are described below:

#### ***REPORTING ENTITY***

SWALCO is a municipal corporation formed by Lake County and 43 municipalities within Lake County for the purpose of implementing the Lake County Solid Waste Management Plan. SWALCO has a Board of Directors made up from these members, an Executive Committee (one permanent seat for Lake County, two seats for members with 30,000 or more residents and six at large seats), a Legislative Committee and five staff members. SWALCO is established pursuant to the Intergovernmental Cooperation Act of the State of Illinois, the Illinois Local Solid Waste Disposal Act, the Illinois Planning and Recycling Act and Lake County Board Resolution #38 of September 12, 1989. Operations began on February 21, 1991. Following criteria established by GASB, SWALCO is not considered a component unit of the county.

#### ***MISSION STATEMENT AND OBJECTIVES***

SWALCO implements a regional approach to solid waste management by addressing the economic, political and environmental issues in Lake County, and by meeting the following objectives:

- > Implement and update the Lake County Solid Waste Management Plan.
- > Facilitate an efficient, reliable and environmentally sound waste disposal system.
- > Advise and assist SWALCO members regarding solid waste management issues.
- > Educate the public regarding the implications of solid waste management options.
- > Identify and disseminate information regarding techniques to reduce, reuse and recycle solid waste.

The entity generally does not dispose of solid waste for its members.

#### ***FUNDING***

The Agency is funded from a surcharge imposed at sanitary landfills. The surcharge also funds the Lake County Health Department’s enforcement program. The Agency also receives a yearly operations and maintenance fee from its members based on the number of households in each member community.

#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

SWALCO is presented following enterprise fund accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting of the Agency's agent multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The Agency adopted these statements effective December 1, 2014. The cumulative impact of the implementation is shown in Note 11.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

##### **Deposits and Investments**

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition. SWALCO's deposits and investments are maintained by the Treasurer of Lake County in pooled deposit and investment accounts. The county's policy is to maintain collateral for all deposits.

##### **Receivables/Payables**

Other receivables consist of membership fees being paid over a number of years from member communities and other miscellaneous amounts due to SWALCO. Breakdown of accounts receivable is as follows:

	2015	2014
Statutory fee receivable	\$ 127,014	\$ 183,583
Member receivable	500	5,485
Interest receivable	3,509	5,847
Miscellaneous receivables	410	-
Total Other Receivables	<u>\$ 131,433</u>	<u>\$ 194,915</u>

SWALCO anticipates no issues with collections from member communities and others. As such, no allowance for uncollectible accounts is considered necessary.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (cont.)**

##### **Receivables/Payables (cont.)**

Accounts payable consists of amounts due from SWALCO to outside parties for goods and services received.

##### **Restricted Assets**

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

##### **Designated Assets**

During fiscal year 2009, the Agency authorized a replacement account to fund any future replacement of capital items. The Agency authorized an increase in this account in fiscal 2015.

##### **Prepaid Insurance**

Prepaid insurance represents insurance premiums which benefit subsequent periods.

##### **Capital Assets**

Capital assets are generally defined by SWALCO as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year.

Capital assets of SWALCO are recorded at cost or the fair market value at the time of contribution to SWALCO. Major outlays for SWALCO capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	5 – 10
Buildings	30
Office furniture and equipment	2 – 10

##### **PENSIONS**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources to pensions, and pension expense, information about the fiduciary net position of the Illinois Municipal Retirement Fund (IMRF or the "Fund") and additions to /deductions from IMRF's fiduciary net position have been determined on the same basis as they are reported by IMRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (cont.)**

##### **DEFERRED OUTFLOWS OF RESOURCES**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

##### **DEFERRED INFLOWS OF RESOURCES**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

##### **REVENUES AND EXPENSES**

SWALCO distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SWALCO's principal ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. When they become effective, application of these standards may restate portions of these financial statements.

##### **COMPARATIVE DATA**

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

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### NOTE 2 – DEPOSITS AND INVESTMENTS

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Generally accepted accounting principles require the disclosure of SWALCO's cash and investment balances and their applicable risks. SWALCO's cash and investments are commingled with the Treasurer of Lake County, Illinois; therefore, individual fund bank balances cannot be determined. Please refer to Lake County's statements for further information.

## SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended November 30, 2015 and 2014

### NOTE 3 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2015 follows:

	Balance 12/1/14	Increases	Decreases	Balance 11/30/15
Capital assets, not being depreciated				
Land	\$ 166,217	\$ -	\$ -	\$ 166,217
Total Capital Assets Not Being Depreciated	166,217	-	-	166,217
Capital assets being depreciated				
Land improvements	96,352	-	-	96,352
Buildings	1,678,340	-	-	1,678,340
Office furniture and equipment	214,037	-	-	214,037
Total Capital Assets Being Depreciated	1,988,729	-	-	1,988,729
Total Capital Assets	2,154,946	-	-	2,154,946
Less: Accumulated depreciation	(1,024,942)	(62,044)	-	(1,086,986)
Net Capital Assets	\$ 1,130,004			\$ 1,067,960

A summary of changes in capital assets for 2014 follows:

	Balance 12/1/13	Increases	Decreases	Balance 11/30/14
Capital assets, not being depreciated				
Land	\$ 166,217	\$ -	\$ -	\$ 166,217
Total Capital Assets Not Being Depreciated	166,217	-	-	166,217
Capital assets being depreciated				
Land improvements	96,352	-	-	96,352
Buildings	1,678,340	-	-	1,678,340
Office furniture and equipment	214,037	-	-	214,037
Total Capital Assets Being Depreciated	1,988,729	-	-	1,988,729
Total Capital Assets	2,154,946	-	-	2,154,946
Less: Accumulated depreciation	(962,897)	(62,045)	-	(1,024,942)
Net Capital Assets	\$ 1,192,049			\$ 1,130,004

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 4 – NET POSITION

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GASB No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. SWALCO has no debt outstanding as of November 30, 2015 or 2014.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the agency's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the investment in capital assets as of November 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Plant in service	\$ 2,154,946	\$ 2,154,946
Accumulated depreciation	<u>(1,086,986)</u>	<u>(1,024,942)</u>
Total Investment in Capital Assets	<u>\$ 1,067,960</u>	<u>\$ 1,130,004</u>

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### NOTE 5 – CONTINGENCIES AND COMMITMENTS

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#### *CONTINGENT LIABILITIES*

Due to the nature of SWALCO's operations, claims and legal actions against hazardous waste disposal may be incurred. No amount has been recorded as a loss because the probability, or amount, cannot be reasonably estimated.

#### *LANDFILL CONTRACTS*

SWALCO has executed waste disposal capacity agreements with seven landfills. The agreements were executed to provide guaranteed disposal capacity to the participating communities over their agreed to terms. The agreements further call for monthly payments to SWALCO based on the tonnage received from the members. Complete terms and conditions of the agreements are available from SWALCO offices.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 6 – RISK MANAGEMENT

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SWALCO is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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### NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

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The Agency implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective December 1, 2014. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by IMRF. For this reason, prior year pension footnote disclosures are included under GASB No. 27.

#### ***PLAN DESCRIPTION***

The Agency's defined benefit pension plan for regular employees provides retirement and disability benefits, post-retirement increases, and death benefits to plan members and beneficiaries. The Agency's plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of a multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this document. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. The report is available for download at [www.imrf.org](http://www.imrf.org).

#### ***BENEFITS PROVIDED***

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired before January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (cont.)

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#### ***BENEFITS PROVIDED*** (cont.)

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

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

#### ***EMPLOYEES COVERED BY BENEFIT TERMS***

As of December 31, 2014, the following employees were covered by the benefit terms:

	<b>IMRF</b>
Retirees and Beneficiaries currently receiving benefits	4
Inactive Plan Members entitled to but not yet receiving benefits	3
Active Plan Members	5
<b>Total</b>	<u>12</u>

#### ***CONTRIBUTIONS***

As set by statute, the Agency's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The Agency's annual contribution rate for calendar year 2014 was 8.18%. SWALCO also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

#### ***NET PENSION LIABILITY (ASSET)***

The Agency's net pension liability (asset) was measured as of December 31, 2014. The total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.



# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (cont.)

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#### ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of IMRF and additions to/deductions from IMRF fiduciary net position have been determined on the same basis as they are reported by IMRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***ACTUARIAL ASSUMPTION***

The following are the methods and assumptions used to determine total pension liability (asset) at December 31, 2014:

- > The Actuarial Cost Method used was Entry Age Normal.
- > The Asset Valuation Method used was Market Value of Assets.
- > The Inflation Rate was assumed to be 3.5%.
- > Salary Increases were expected to be 3.75% to 14.50%, including inflation.
- > The Investment Rate of Return was assumed to be 7.48%.
- > Projected Retirement Age was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2014 valuation according to an experience study from years 2011 to 2013.
- > The IMRF-specific rates for Mortality (for non-disabled retirees) 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 2014). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives.
- > For Active Members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.
- > The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended November 30, 2015 and 2014

## NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (cont.)

### ACTUARIAL ASSUMPTION (cont.)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Projected Returns/Risk</u>	
		<u>One Year Arithmetic</u>	<u>Ten Year Geometric</u>
Equities	38%	8.85%	7.39%
International Equities	17%	9.55%	7.59%
Fixed Income	27%	3.05%	3.00%
Real Estate	8%	7.20%	6.00%
Alternatives	9%		
Private Equity		13.15%	8.15%
Hedge Funds		5.55%	5.25%
Commodities		4.40%	2.75%
Cash Equivalents	<u>1%</u>	2.25%	2.25%
Total	100%		

### SINGLE DISCOUNT RATE

A Single Discount Rate of 7.50% was used to measure the total pension liability (asset). The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.56%, and the resulting single discount rate is 7.50%.

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended November 30, 2015 and 2014

## NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (cont.)

### *CHANGES IN THE NET PENSION LIABILITY (ASSET)*

	<b>Total Pension Liability (A)</b>	<b>Plan Fiduciary Net Position (B)</b>	<b>Net Pension Liability (Asset) (A) - (B)</b>
<b>Balances at December 31, 2013</b>	<u>\$ 1,982,980</u>	<u>\$ 2,749,032</u>	<u>\$ (766,052)</u>
<b>Changes for the year:</b>			
Service Cost	48,289	-	48,289
Interest on the Total Pension Liability	150,456	-	150,456
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience of the Total Pension Liability	(113,552)	-	(113,552)
Changes of Assumptions	76,878	-	76,878
Contributions - Employer	-	29,569	(29,569)
Contributions - Employees	-	16,266	(16,266)
Net Investment Income	-	169,025	(169,025)
Benefit Payments, including Refunds of Employee Contributions	(2,077)	(2,077)	-
Other (Net Transfer)	-	(145,009)	145,009
Net Changes	<u>159,994</u>	<u>67,774</u>	<u>92,220</u>
<b>Balances at December 31, 2014</b>	<u>\$ 2,142,974</u>	<u>\$ 2,807,657</u>	<u>\$ (673,832)</u>

### *SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE*

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

	<u>1% Lower (6.50%)</u>	<u>Current Discount (7.50%)</u>	<u>1% Higher (8.50%)</u>
Net Pension Liability (Asset)	(\$402,687)	(\$673,832)	(\$900,104)

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended November 30, 2015 and 2014

## NOTE 7 – EMPLOYEE RETIREMENT SYSTEM (cont.)

### *PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS*

For the year ended November 30, 2015, the Agency recognized pension expense of \$119,674. At November 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Deferred Amounts Related to Pensions</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b><i>Deferred Amounts to be Recognized in Pension Expense in Future Periods</i></b>		
Differences between expected and actual experience	\$ -	\$ 78,525
Changes of assumptions	53,163	-
Net difference between projected and actual earnings on pension plan investments	27,722	1,038
Total Deferred Amounts to be recognized in pension expense in future periods	80,885	79,563
<b><i>Pension Contributions made subsequent to the Measurement Date</i></b>	5,539	-
<b>Total Deferred Amounts Related to Pensions</b>	<b>\$ 86,424</b>	<b>\$ 79,563</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future periods as follows:

<b>Year Ending June 30</b>	<b>Net Deferred Outflows of Resources</b>	<b>Net Deferred Inflows of Resources</b>
2016	\$ 30,645	\$ 35,287
2017	30,645	35,287
2018	12,665	8,729
2019	6,930	260
Total	<b>\$ 80,855</b>	<b>\$ 79,563</b>

# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended November 30, 2015 and 2014

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### NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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All full-time employees participate in a single-employer self-insured health care plan administered through Lake County. The Plan provides limited health care coverage at 100% of the active premium rate. The State of Illinois requires IMRF employers who offer health insurance to their active employees to offer the same health insurance to disabled members, retirees, and surviving spouses at the same premium rate for active employees. Therefore an implicit rate subsidy exists for retirees (that is, the difference between the premium rate charged to retirees for the benefit and the estimated rate that would be applicable to those retirees if that benefit were acquired for them as a separate group) resulting from the participation in postemployment healthcare plans that cover both active employees and retirees. The plan operates on a pay-as-you-go funding basis. No assets are accumulated or dedicated to funding the retiree health insurance benefits. The actuarial valuation of the plan is computed for the county as a whole. The Agency's portion of the liability is not considered material to the financial statements.

Further details regarding the county's entire commitment to the health care plan can be found in the Lake County, Illinois financial statements.

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### NOTE 9 – RELATED PARTIES

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SWALCO is a stand-alone government as determined by criteria established by GASB. Lake County does provide certain services including, but not limited to, banking, general ledger, payroll and other data processing.

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### NOTE 10 – SUBSEQUENT EVENTS

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The Agency evaluated subsequent events through June 7, 2016, the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements. No significant events were noted.

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### NOTE 11 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

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The Agency adopted GASB Statement No. 68 effective December 1, 2014. The cumulative effect of implementation is reflected as a change in net position as follows:

Net pension liability (asset) December 1, 2014	\$ (766,052)
Deferred outflows December 1, 2014	<u>(34,315)</u>
Cumulative Effect of Change in Accounting Principle	<u>\$ (800,367)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

## SOLID WASTE AGENCY OF LAKE COUNTY

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BUDGET AND ACTUAL

For the Year Ended November 30, 2015

	Original and Final Budget	Actual	Variance
<b>OPERATING REVENUES</b>			
County surcharge - current	\$ 669,000	\$ 723,982	\$ 54,982
Member fees	277,305	277,650	345
Other miscellaneous	97,480	105,168	7,688
Total Operating Revenues	1,043,785	1,106,800	63,015
<b>OPERATING EXPENSES</b>			
Personnel services	410,606	407,826	2,780
Operational services	38,560	35,957	2,603
Contractual services	578,239	734,264	(156,025)
Capital outlay	3,500	171	3,329
Depreciation	-	62,044	(62,044)
Pension Expense	-	119,674	(119,674)
Total Operating Expenses	1,030,905	1,359,936	(329,031)
<b>OPERATING INCOME</b>	12,880	(253,136)	(266,016)
<b>NONOPERATING INCOME</b>			
Investment income	5,000	2,900	(2,100)
<b>CHANGE IN NET POSITION</b>	17,880	(250,236)	<u>\$ (268,116)</u>
NET POSITION - Beginning of Year	3,642,184	3,642,184	
Cumulative effect of a change in accounting principle		800,367	
<b>NET POSITION - END OF YEAR</b>	<u>\$ 3,660,064</u>	<u>\$ 4,192,315</u>	

See independent auditors' report and notes to required supplementary information.

## SOLID WASTE AGENCY OF LAKE COUNTY

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BUDGET AND ACTUAL

For the Year Ended November 30, 2014

	Original and Final Budget	Actual	Variance
<b>OPERATING REVENUES</b>			
County surcharge - current	\$ 635,000	\$ 708,278	\$ 73,278
Member fees	275,920	237,170	(38,750)
Other miscellaneous	163,550	232,559	69,009
Total Operating Revenues	<u>1,074,470</u>	<u>1,178,007</u>	<u>103,537</u>
<b>OPERATING EXPENSES</b>			
Personnel services	402,795	403,571	(776)
Operational services	53,950	43,154	10,796
Contractual services	604,900	526,622	78,278
Capital outlay	3,500	3,273	227
Depreciation	-	62,045	(62,045)
Total Operating Expenses	<u>1,065,145</u>	<u>1,038,665</u>	<u>26,480</u>
<b>OPERATING INCOME</b>	<u>9,325</u>	<u>139,342</u>	<u>130,017</u>
<b>NONOPERATING INCOME</b>			
Investment income	5,000	9,131	4,131
<b>CHANGE IN NET POSITION</b>	14,325	148,473	<u>\$ 134,148</u>
NET POSITION - Beginning of Year	<u>3,493,711</u>	<u>3,493,711</u>	
<b>NET POSITION - END OF YEAR</b>	<u>\$ 3,508,036</u>	<u>\$ 3,642,184</u>	

See independent auditors' report and notes to required supplementary information.



# SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended November 30, 2015

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## ***BUDGETARY INFORMATION***

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the accrual basis of accounting. We also note depreciation expense is not budgeted.

**SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS**

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
 For the Year Ended November 30, 2015

The schedule of funding progress, presented as required supplementary information, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule below represents Lake County as a whole, and does not separate SWALCO's proportionate share, which is not considered material to these financial statements.

**Entire County Including SWALCO**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/1/2014	\$ -	\$ 34,142,000	\$ 34,142,000	0.00%	\$ 139,361,000	24.50%
12/1/2013	-	31,964,000	31,964,000	0.00%	125,558,900	25.46%
12/1/2012	-	30,511,959	30,511,959	0.00%	124,979,909	24.41%
12/1/2011	-	29,659,000	29,659,000	0.00%	119,608,000	24.80%
12/1/2010	-	27,362,000	27,362,000	0.00%	132,341,000	20.70%
12/1/2009	-	46,157,000	46,157,000	0.00%	153,979,000	30.00%
12/1/2008	-	47,307,231	47,307,231	0.00%	144,383,846	32.76%

We have omitted the IMRF required supplemental information as this is shown in the county financial statements for the period prior to SWALCO changing to their own account and discussed in greater detail in Note 7 of these financial statements.

**SOLID WASTE AGENCY OF LAKE COUNTY  
ILLINOIS MUNICIPAL RETIREMENT FUND**

SCHEDULE OF CHANGES IN THE AGENCY'S NET PENSION LIABILITY (ASSET)  
AND RELATED RATIOS

As of Measurement Date

	2015
<b>Total pension liability</b>	
Service cost	\$ 48,289
Interest	150,456
Differences between expected and actual experience	(113,552)
Changes of assumptions	76,878
Benefit payments, including refunds of member contributions	(2,077)
<b>Net change in total pension liability</b>	159,994
<b>Total pension liability - beginning</b>	1,982,980
<b>Total pension liability - ending (a)</b>	\$ 2,142,974
<b>Plan fiduciary net position</b>	
Employer contributions	\$ 29,569
Employee contributions	16,266
Net investment income	169,025
Benefit payments, including refunds of member contributions	(2,077)
Other (net transfer)	(145,009)
<b>Net change in plan fiduciary net position</b>	67,774
<b>Plan fiduciary net position - beginning</b>	2,749,032
<b>Plan fiduciary net position - ending (b)</b>	\$ 2,816,806
<b>Employer's net pension liability (asset) - ending (a) - (b)</b>	\$ (673,832)
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	131.44%
<b>Covered-employee payroll</b>	\$ 361,475
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	-186.41%

**Notes to Schedule:**

The Agency implemented GASB Statement No. 68 in fiscal year 2015. Information prior to fiscal year 2015 is not available.

**SOLID WASTE AGENCY OF LAKE COUNTY**  
**ILLINOIS MUNICIPAL RETIREMENT FUND**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

As of November 30, 2015

	2015
Actuarially determined contribution	\$ 8,188
Contributions in relation to the actuarially determined contribution	(8,188)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 379,623
Contributions as a percentage of covered-employee payroll	2.16%

**Notes to Schedule:**

The Agency implemented GASB Statement No. 68 in fiscal year 2015. Information prior to fiscal year 2015 is not available.

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 each year, which are 11 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	5-Year Smoothed Market
Inflation	3.00%
Salary increases	4.40% to 16.00% including inflation
Investment rate of return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 CHBCA

Other information:

There were no benefit changes during the year.