

Solid Waste Agency of Lake County, Illinois

Financial Report
November 30, 2017

Contents

Independent Auditor's Report	1-2
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Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6-16

Required Supplementary Information	
Statement of Revenues, Expenses and Changes in Net Position, Budget and Actual – Year Ended November 30, 2017	17
Statement of Revenues, Expenses and Changes in Net Position, Budget and Actual – Year Ended November 30, 2016	18
Note to Required Supplementary Information	19
Schedule of Funding Progress – Other Postemployment Benefits	20
Schedule of Changes in the Agency's Net Pension Liability (Asset) and Related Ratios	21
Schedule of Employer Contributions - IMRF	22



RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Solid Waste Agency of Lake County, Illinois (SWALCO) which comprise the statement of net position as of November 30, 2017, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 of 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 reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SWALCO as of November 30, 2017, and the changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of SWALCO, as of and for the year ended November 30, 2016, were audited by other auditors, whose report, dated May 19, 2017, expressed an unmodified opinion on those statements.

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.

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.

RSM US LLP

Chicago, Illinois
May 31, 2018

Solid Waste Agency of Lake County, Illinois

**Statements of Net Position
November 30, 2017 and 2016**

	2017	2016
Assets		
Current assets:		
Cash	\$ 1,967,711	\$ 1,840,424
Receivables	145,042	141,583
Prepaid insurance	20,449	20,234
Total current assets	2,133,202	2,002,241
Noncurrent assets:		
Designated assets:		
Equipment replacement fund	500,000	500,000
Restricted assets:		
Net pension asset	414,707	402,531
Capital assets:		
Plant in service	2,154,946	2,154,946
Accumulated depreciation	(1,211,074)	(1,149,030)
Total noncurrent assets	1,858,579	1,908,447
Total assets	3,991,781	3,910,688
Deferred outflows of resources - pension	146,911	220,116
Liabilities		
Current liabilities:		
Accounts payable	27,400	32,007
Accrued payroll	15,420	12,688
Total current liabilities	42,820	44,695
Deferred inflows of resources - pension	54,305	98,091
Net position:		
Net investment in capital assets	943,872	1,005,916
Restricted for:		
Pension	414,707	402,531
Unrestricted	2,682,988	2,579,571
Total net position	\$ 4,041,567	\$ 3,988,018

See notes to financial statements.

Solid Waste Agency of Lake County, Illinois

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended November 30, 2017 and 2016**

	2017	2016
Operating revenues:		
County surcharge - current	\$ 700,938	\$ 711,624
Member fees	277,770	241,160
Other miscellaneous	101,499	62,175
Total operating revenues	1,080,207	1,014,959
Operating expenses:		
Personnel services	439,534	432,810
Operational services	24,938	40,951
Contractual services	465,486	534,712
Buildings and equipment maintenance	2,189	1,404
Pension expense	37,764	156,137
Depreciation	62,044	62,044
Total operating expenses	1,031,955	1,228,058
Operating income (loss)	48,252	(213,099)
Nonoperating income:		
Investment income	5,297	8,802
Total nonoperating income	5,297	8,802
Change in net position	53,549	(204,297)
Net position - beginning of year	3,988,018	4,192,315
Net position - end of year	\$ 4,041,567	\$ 3,988,018

See notes to financial statements.

Solid Waste Agency of Lake County, Illinois

Statements of Cash Flows
Years Ended November 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from members and the County	\$ 1,076,534	\$ 1,008,351
Paid to suppliers for goods and services	(532,252)	(577,031)
Paid to employees for services	(422,292)	(432,810)
Net cash provided by (used in) operating activities	121,990	(1,490)
Cash flows from investing activities:		
Investment income	5,297	5,260
Net change in cash and cash equivalents	127,287	3,770
Cash and cash equivalents - beginning of year	2,340,424	2,336,654
Cash and cash equivalents - end of year	\$ 2,467,711	\$ 2,340,424
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:		
Operating income (loss)	\$ 48,252	\$ (213,099)
Noncash items included in operating income:		
Depreciation	62,044	62,044
Changes in assets and liabilities:		
Other receivables	(3,459)	(6,608)
Prepaid insurance	(215)	1,173
Accounts payable	(4,607)	(3,190)
Accrued payroll	2,732	2,053
Pension related deferrals and liabilities	17,243	156,137
Net cash provided by (used in) operating activities	\$ 121,990	\$ (1,490)
Reconciliation of cash and cash equivalents to statements of net position:		
Cash	\$ 1,967,711	\$ 1,840,424
Equipment replacement fund	500,000	500,000
Cash and cash equivalents	\$ 2,467,711	\$ 2,340,424

See notes to financial statements.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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.

As defined by generally accepted accounting principles established by GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

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.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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

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 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:

	2017		2016
Statutory fee receivable	\$ 145,042	\$	134,532
Interest receivable	-		7,051
Total other receivables	<u>\$ 145,042</u>	<u>\$</u>	<u>141,583</u>

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

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.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 estimated acquisition 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 related 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.

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.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Effect of New Accounting Standards of Current Period Financial Statements

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues*, Statement No. 87, *Leases* and Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Management has not yet determined the impact of these statements.

Note 2. Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, SWALCO's deposits may not be returned to them. SWALCO is appropriately collateralized for all deposits and, therefore, is not exposed to custodial credit risk.

Note 3. Changes in Capital Assets

A summary of changes in capital assets for 2017 follows:

	Balance 12/1/16	Additions	Retirements	Balance 11/30/17
Capital assets not being depreciated:				
Land	\$ 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	(1,149,030)	(62,044)	-	(1,211,074)
Net capital assets	<u>\$ 1,005,916</u>			<u>\$ 943,872</u>

A summary of changes in capital assets for 2016 follows:

	Balance 12/1/15	Additions	Retirements	Balance 11/30/16
Capital assets not being depreciated:				
Land	\$ 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	(1,086,986)	(62,044)	-	(1,149,030)
Net capital assets	<u>\$ 1,067,960</u>			<u>\$ 1,005,916</u>

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 4. Net Position

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, 2017 or 2016.

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.

Note 5. Contingencies and Commitments

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

Note 6. Risk Management

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.

Note 7. Employee Retirement System

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.

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.

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.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 7. Employee Retirement System (Continued)

Employee Covered by Benefit Terms

As of December 31, 2016 and 2015, the following employees were covered by the benefit terms:

	2016	2015
Retirees and beneficiaries currently receiving benefits	2	4
Inactive plan members entitled to but not yet receiving benefits	2	2
Active plan members	5	5
Total	<u>9</u>	<u>11</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 2017 and 2016 was .85% and .86%, respectively. 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, 2016. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumption

The following are the methods and assumptions used to determine total pension liability (asset) at December 31, 2016:

- The actuarial cost method used was entry age normal.
- The asset valuation method used was market value of assets.
- The inflation rate was assumed to be 2.75%.
- Salary increases were expected to be 3.75% to 14.50%, including inflation.
- The investment rate of return was assumed to be 7.50%.
- 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.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 7. Employee Retirement System (Continued)

- The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Portfolio Target Percentage	Long-Term Expected Real Rate of Return
Domestic Equity	38.0%	6.85%
International Equity	17.0%	6.75%
Fixed income	27.0%	3.00%
Real estate	8.0%	5.75%
Alternative Investments	9.0%	2.65-7.35%
Cash equivalents	<u>1.0%</u>	2.25%
Total	<u><u>100%</u></u>	

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:

- 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
- 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 3.78%, and the resulting single discount rate is 7.50%.

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 7. Employee Retirement System (Continued)

Changes in Net Pension Liability (Asset)

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (Asset) (A) - (B)
Balances at December 31, 2014	\$ 2,142,974	\$ 2,807,657	\$ (664,683)
Changes for the year:			
Service cost	44,802	-	44,802
Interest on the total pension liability	162,272	-	162,272
Changes of benefit terms	-	-	-
Differences between expected and actual			
Experience of the total pension liability	(76,621)	-	(76,621)
Changes of assumptions	-	-	-
Contributions - employer	-	3,751	(3,751)
Contributions - employees	-	17,770	(17,770)
Net investment income	-	14,083	(14,083)
Benefit payments, including refunds of employee contributions	(3,502)	(3,502)	-
Other (net transfer)	-	(175,295)	175,295
Net changes	126,951	(143,193)	270,144
Balances at December 31, 2015	2,269,925	2,664,464	(394,539)
Changes for the year:			
Service cost	47,865	-	47,865
Interest on the total pension liability	168,268	-	168,268
Changes of benefit terms	-	-	-
Differences between expected and actual			
Experience of the total pension liability	(20,058)	-	(20,058)
Changes of assumptions	-	-	-
Contributions - employer	-	3,416	(3,416)
Contributions - employees	-	17,879	(17,879)
Net investment income	-	185,576	(185,576)
Benefit payments, including refunds of employee contributions	(100,563)	(100,563)	-
Other (net transfer)	-	9,372	(9,372)
Net changes	95,512	115,680	(20,168)
Balances at December 31, 2016	\$ 2,365,437	\$ 2,780,144	\$ (414,707)

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 7. Employee Retirement System (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Lower (6.50%)	Current Discount (7.50%)	1% Higher (8.50%)
Net Pension Liability (Asset)	\$ (124,469)	\$ (414,707)	\$ (658,243)

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

For the year ended November 30, 2017, the Agency recognized pension expense of \$37,764. At November 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	November 30, 2017		November 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
<i>Deferred amounts to be recognized in expense in future periods</i>				
Differences between expected and actual experience	\$ -	\$ 53,785	\$ -	\$ 97,312
Changes of assumptions	5,733	-	29,448	-
Net difference between projected and actual earnings on pension plan investments	138,124	520	173,742	779
Total deferred amounts to be recognized in pension expense in future periods	143,857	54,305	203,190	98,091
<i>Pension contributions made subsequent to the measurement date</i>	3,054	-	16,926	-
Total deferred amounts related to pensions	\$ 146,911	\$ 54,305	\$ 220,116	\$ 98,091

Solid Waste Agency of Lake County, Illinois

Notes to Financial Statements

Note 7. Employee Retirement System (Continued)

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:

Year Ending December 31	Net Deferred Outflows / Inflows of Resources
2017	\$ 16,001
2018	33,346
2019	37,819
2020	2,386
2021	-
Thereafter	-
Total	\$ 89,552

Note 8. Other Postemployment Benefits (OPEB)

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.

Note 9. Related Parties

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.

Note 10. Subsequent Events

The Agency evaluated subsequent events through May 31, 2018, for events requiring recording or disclosure in the financial statements. No significant events were noted.

Required Supplementary Information

Solid Waste Agency of Lake County, Illinois

**Statement of Revenues, Expenses and Changes in Net Position, Budget and Actual
Year Ended November 30, 2017**

	Original and Final Budget	Actual	Variance
Operating revenues:			
County surcharge - current	\$ 677,100	\$ 700,938	\$ 23,838
Member fees	241,160	277,770	36,610
Other miscellaneous	88,900	101,499	12,599
Total operating revenues	<u>1,007,160</u>	<u>1,080,207</u>	<u>73,047</u>
Operating expenses:			
Personnel services	435,021	439,534	(4,513)
Operational services	33,600	24,938	8,662
Contractual services	541,189	465,486	75,703
Buildings and equipment maintenance	2,575	2,189	386
Depreciation	-	62,044	(62,044)
Pension expense	3,552	37,764	(34,212)
Total operating expenses	<u>1,015,937</u>	<u>1,031,955</u>	<u>(16,018)</u>
Operating income	<u>(8,777)</u>	<u>48,252</u>	<u>57,029</u>
Nonoperating income:			
Investment income	9,000	5,297	(3,703)
Change in net position	223	53,549	<u>\$ 53,326</u>
Net position - beginning of year	<u>3,988,018</u>	<u>3,988,018</u>	
Net position - end of year	<u>\$ 3,988,241</u>	<u>\$ 4,041,567</u>	

Solid Waste Agency of Lake County, Illinois

**Statement of Revenues, Expenses and Changes in Net Position, Budget and Actual
Year Ended November 30, 2016**

	Original and Final Budget	Actual	Variance
Operating revenues:			
County surcharge - current	\$ 695,000	\$ 711,624	\$ 16,624
Member fees	277,650	241,160	(36,490)
Other miscellaneous	45,300	62,175	16,875
Total operating revenues	<u>1,017,950</u>	<u>1,014,959</u>	<u>(2,991)</u>
Operating expenses:			
Personnel services	427,201	432,810	5,609
Operational services	38,910	40,951	2,041
Contractual services	558,969	534,712	(24,257)
Capital outlay	1,500	1,404	(96)
Depreciation	-	62,044	62,044
Pension expense	-	156,137	156,137
Total operating expenses	<u>1,026,580</u>	<u>1,228,058</u>	<u>201,478</u>
Operating income	<u>(8,630)</u>	<u>(213,099)</u>	<u>(204,469)</u>
Nonoperating income:			
Investment income	9,000	8,802	(198)
Change in net position	370	(204,297)	<u>\$ (204,667)</u>
Net position - beginning of year	<u>4,192,315</u>	<u>4,192,315</u>	
Net position - end of year	<u>\$ 4,192,685</u>	<u>\$ 3,988,018</u>	

Solid Waste Agency of Lake County, Illinois

**Note to Required Supplementary Information
For the Year Ended November 30, 2017**

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
 Year Ended November 30, 2017**

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) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/1/2015	\$ -	\$ 21,755,000	\$ 21,755,000	0.00%	\$ 147,131,683	14.79%
12/1/2013	-	31,963,955	31,963,955	0.00%	125,558,911	25.50%
12/1/2011	-	29,659,000	29,659,000	0.00%	119,608,000	24.80%
12/1/2009	-	46,157,000	46,157,000	0.00%	153,979,000	30.00%
12/1/2007	-	43,576,000	43,576,000	0.00%	138,830,621	31.40%

period prior to SWALCO changing to their own account and discussed in greater detail in Note 8 of these financial statements.

**Solid Waste Agency of Lake County, Illinois
Illinois Municipal Retirement Fund**

**Schedule of Changes in the Agency's Net Pension Liability (Asset) and Related Ratios
As of Measurement Date**

	2016	2015	2014
Total pension liability:			
Service cost	\$ 47,865	\$ 44,802	\$ 48,289
Interest	168,268	162,272	150,456
Differences between expected and actual experience	(20,058)	(76,621)	(113,552)
Changes of assumptions	-	-	76,878
Benefit payments, including refunds of member contributions	(100,563)	(3,502)	(2,077)
Net change in total pension liability	95,512	126,951	159,994
Total pension liability - beginning	2,269,925	2,142,974	1,982,980
Total pension liability - ending (a)	\$ 2,365,437	\$ 2,269,925	\$ 2,142,974
Plan fiduciary net position:			
Employer contributions	\$ 3,416	\$ 3,751	\$ 29,569
Employee contributions	17,879	17,770	16,266
Net investment income	185,576	14,083	165,146
Benefit payments, including refunds of member contributions	(100,563)	(3,502)	(2,077)
Other (net transfer)	9,372	(175,295)	(86,686)
Net change in plan fiduciary net position	115,680	(143,193)	122,218
Plan fiduciary net position - beginning	2,664,464	2,807,657	2,685,439
Total fiduciary net position - ending (b)	\$ 2,780,144	\$ 2,664,464	\$ 2,807,657
Employer's net pension liability (asset) - ending (a) - (b)	\$ (414,707)	\$ (394,539)	\$ (664,683)
Plan fiduciary net position as a percentage of the total pension liability	117.53%	117.38%	131.02%
Covered-employee payroll	\$ 397,304	\$ 394,891	\$ 366,905
Employer's net pension liability as a percentage of covered-employee payroll	-104.38%	-99.91%	-181.16%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Solid Waste Agency of Lake County, Illinois

**Schedule of Employer Contributions - IMRF
Last Three Calendar Years**

Calendar Year Ended December 31,	Actuarially Determined Contribution*	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a Percentage of Covered Valuation Payroll
2016	\$ 3,417	\$ 3,416	\$ 1	\$ 397,304	0.86%
2015	3,751	3,751	-	394,891	0.95%
2014	30,013	29,569	444	366,905	8.06%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Notes to Schedule:

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2016 Contribution Rate*

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine 2016 Contribution Rates:

Actuarial cost method: Aggregate entry age normal
 Amortization method: Level percentage of payroll, closed
 Remaining amortization period: 27-year closed period until remaining periods reach 15 years (then 15-year rolling period).
 Asset valuation method: 5-year smoothed market; 20% corridor
 Wage growth: 3.50%
 Price inflation: 2.75%, approximate; No explicit price inflation assumption is used in this valuation.
 Salary increases: 3.75% to 14.50%, including inflation
 Investment rate of return: 7.50%
 Retirement age: Experience-based table of rates that are specific to the type of eligibility condition; last updated for the 2014 valuation pursuant to an experience study of the period 2011 to 2013.
 Mortality: For non-disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (based year 2012). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (based year 2012). The IMRF specific rates were developed from RP-2014 Disabled Retirees Mortality Table applying the same adjustment 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 2012). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.
 Other information: There were no benefit changes during the year.

* Based on Valuation Assumptions used in the December 31, 2014, actuarial valuation; note two-year lag between valuation and rate setting.