

**NORTH SHORE SANITARY DISTRICT
Lake County, Illinois**

**AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY FINANCIAL INFORMATION**

APRIL 30, 2002

**NORTH SHORE SANITARY DISTRICT
APRIL 30, 2002**

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INDEPENDENT AUDITOR'S REPORT

September 17, 2002

To the President and Board of Trustees
North Shore Sanitary District
Gurnee, Illinois 60031

We have audited the accompanying financial statements of NORTH SHORE SANITARY DISTRICT as of April 30, 2002 and 2001 as listed in the index. These financial statements are the responsibility of the District's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NORTH SHORE SANITARY DISTRICT as of April 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary financial statements and supplementary information in the index is presented for purposes of additional analysis and is not a required part of the financial statements of the NORTH SHORE SANITARY DISTRICT. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The required supplemental information listed in the accompanying index is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In our opinion, the District has generally complied with the requirements of the 1991 General Obligation Bond Ordinance dated February 28, 1991. See Note 7 to the financial statements.

Swaigtruber & Co.

Certified Public Accountants

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE BALANCE SHEETS
APRIL 30, 2002 AND 2001**

ASSETS

	2002	2001
CURRENT ASSETS		
Cash	\$ 2,289,419	\$ 882,454
Investments	24,512,672	24,775,553
	\$ 26,802,091	\$ 25,658,007
Receivables		
Property taxes receivable	\$ 10,176,907	\$ 9,815,000
Replacement taxes receivable	192,359	289,797
Accrued interest receivable	34,077	650,642
Accounts receivable	1,159,313	671,176
User fees receivable		
Billed and currently collectible net of \$171,600		
allowance for bad debts (\$149,000 - 2001)	2,039,059	1,158,168
Unbilled (estimated)	3,410,000	2,708,000
Total receivables	\$ 17,011,715	\$ 15,292,783
Inventories	713,794	758,699
Prepaid expenses	157,526	132,670
Total current assets	\$ 44,685,126	\$ 41,842,159
 RESTRICTED ASSETS		
Investments	\$ 21,952,866	\$ 21,275,301
Total restricted assets	\$ 21,952,866	\$ 21,275,301
 PROPERTY PLANT AND EQUIPMENT		
Net of \$170,257,716 accumulated depreciation		
(\$159,545,328 - 2001)	\$ 187,941,686	\$ 188,761,045
	-	-
Total assets	\$ 254,579,678	\$ 251,878,505

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND DISTRICT EQUITY

	2002	2001
CURRENT LIABILITIES		
Accounts payable		
Unrestricted	\$ 961,054	\$ 1,120,591
Restricted	1,751,041	3,086,053
Total accounts payable	\$ 2,712,095	\$ 4,206,644
Accrued expenses		
Accrued payroll	\$ 153,513	\$ 137,142
Accrued interest	114,599	123,547
Accrued sick and vacation pay	387,351	387,774
Total accrued expenses	\$ 655,463	\$ 648,463
Current portion - long-term debt	1,100,730	1,073,719
Deferred revenue - property taxes	5,394,252	5,012,038
Total current liabilities	\$ 9,862,540	\$ 10,940,864
NONCURRENT LIABILITIES		
Long-term debt	\$ 13,751,921	\$ 14,825,640
Less: current portion	(1,100,730)	(1,073,719)
	\$ 12,651,191	\$ 13,751,921
Accrued sick pay	465,097	471,970
Landfill closure/postclosure costs	252,000	233,000
Total noncurrent liabilities	\$ 13,368,288	\$ 14,456,891
Total liabilities	\$ 23,230,828	\$ 25,397,755
DISTRICT EQUITY		
Contributed capital - Unreserved	\$ 93,652,714	\$ 98,389,586
Retained earnings		
Reserved		
Additions	\$ 1,486,688	\$ 3,338,659
Replacements	6,481,764	6,298,193
Expansion	11,691,360	8,042,098
1991 Bond Issue	542,012	510,298
Unreserved	117,494,312	109,901,916
	\$ 137,696,136	\$ 128,091,164
Total district equity	\$ 231,348,850	\$ 226,480,750
Total liabilities and district equity	\$ 254,579,678	\$ 251,878,505

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED APRIL 30, 2002 AND 2001**

	2002	2001
OPERATING REVENUES		
Sewer connection, annexation and fair capital contributions	\$ 2,269,226	\$ 2,392,580
General user charge	10,434,976	10,193,314
Sewage treatment contracts	4,237,304	4,134,911
Sulfate fees	396,759	319,140
Laboratory analytical fees	234,958	265,393
Capital fees	1,000,000	1,250,000
General penalties	19,108	27,809
Sewer inspection fees	8,200	8,525
Miscellaneous	8,138	100,463
Total operating revenues	\$ 18,608,669	\$ 18,692,135
OPERATING EXPENSES		
Salaries	\$ 5,457,238	\$ 5,391,712
Employee benefits	1,732,361	1,789,635
Process chemicals	1,214,947	1,078,567
Repairs	1,172,035	1,246,748
Supplies	420,558	418,262
Vehicle expense	57,209	47,098
Miscellaneous safety improvements	1,515	8,977
Utilities	4,052,416	4,867,017
Contractual and professional services	1,473,334	1,020,375
Property and liability insurance	496,289	463,043
Consulting and engineering services	-	29,466
Bad debts	20,208	19,536
Other	22,782	18,965
Subtotal	\$ 16,120,892	\$ 16,399,401
Depreciation	11,253,557	11,076,083
Landfill closure/postclosure costs	19,000	33,000
Total operating expenses	\$ 27,393,449	\$ 27,508,484
OPERATING INCOME (LOSS) FORWARDED	\$ (8,784,780)	\$ (8,816,349)

The accompanying notes are an integral part of the financial statements.

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS (CONTINUED)
FOR THE YEARS ENDED APRIL 30, 2002 AND 2001**

	2002	2001
OPERATING INCOME (LOSS) brought forward	\$ (8,784,780)	\$ (8,816,349)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	\$ 9,781,337	\$ 9,632,276
Replacement taxes	1,942,254	2,226,272
Interest income	1,752,414	2,643,513
Interest expense	(355,024)	(381,592)
Miscellaneous	100,685	41,830
Gain (loss) on disposition of assets	(199,527)	(812,772)
Net nonoperating revenues	\$ 13,022,139	\$ 13,349,527
Net income	\$ 4,237,359	\$ 4,533,178
OTHER FINANCING SOURCES (USES)		
Operating Transfer - Depreciation and (gains) losses on disposition of assets attributable to contributed capital	\$ 5,712,872	\$ 6,142,430
Total other financing sources (uses)	\$ 5,712,872	\$ 6,142,430
Increase in retained earnings	\$ 9,950,231	\$ 10,675,608
RETAINED EARNINGS, BEGINNING	128,091,164	117,415,556
PRIOR PERIOD ADJUSTMENTS - See Note 15	(345,259)	-
RETAINED EARNINGS, ENDING	\$ 137,696,136	\$ 128,091,164
RESERVED FOR: ADDITIONS	\$ 1,486,688	\$ 3,338,659
REPLACEMENTS	6,481,764	6,298,193
EXPANSION	11,691,360	8,042,098
1991 BOND ISSUE	542,012	510,298
	\$ 20,201,824	\$ 18,189,248
UNRESERVED	117,494,312	109,901,916
	\$ 137,696,136	\$ 128,091,164

The accompanying notes are an integral part of the financial statements.

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2002 AND 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 16,671,841	\$ 20,168,746
Cash paid to suppliers for goods and services	(10,803,143)	(11,053,822)
Cash paid to employees for services	(5,448,163)	(5,252,724)
Less: equity reserve additions*	(5,407,077)	(5,788,790)
Net cash provided from (used in) operating activities	\$ (4,986,542)	\$ (1,926,590)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Real estate taxes received	\$ 9,801,644	\$ 9,526,673
Personal property replacement taxes received	2,039,692	2,165,708
Other	100,685	41,833
Less: equity reserve additions*	(5,993,519)	(5,817,035)
Net cash provided from (used in) noncapital financing activities	\$ 5,948,502	\$ 5,917,179
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Equity reserve additions*	\$ 11,400,596	\$ 11,605,825
Interest paid on debt	(363,972)	(390,320)
Proceeds from sale of fixed assets	100	18,411
Acquisition of fixed assets	(11,472,295)	(5,023,504)
Principal payments on debt	(1,073,719)	(1,047,372)
Net cash provided from (used in) capital and related financing activities	\$ (1,509,290)	\$ 5,163,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ 2,368,979	\$ 2,395,138
Investments sold (purchased) - net	19,731,559	(6,345,048)
Net cash provided from (used in) investing activities	\$ 22,100,538	\$ (3,949,910)
Net increase (decrease) in cash	\$ 21,553,208	\$ 5,203,719
CASH BALANCE, BEGINNING	13,201,749	7,998,033
CASH BALANCE, ENDING	\$ 34,754,957	\$ 13,201,752
CASH RECONCILIATION		
Cash operating	\$ 2,289,419	\$ 882,454
Illinois Funds	32,465,538	12,319,295
	\$ 34,754,957	\$ 13,201,749

Supplemental information - non-cash capital financing transaction

The Army Corp of Engineers contributed \$976,000 towards the cost of a land improvement project during the year ended April 30, 2002. This amount is not included in the fixed asset acquisition amounts shown on this statement.

The accompanying notes are an integral part of the financial statements.

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED APRIL 30, 2002 AND 2001**

	2002	2001
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Net operating income (loss)	\$ (8,784,780)	\$ (8,816,349)
Depreciation	11,253,557	11,076,083
Net (increase) decrease in receivables	(1,936,828)	1,476,611
Net (increase) decrease in inventory	44,905	1,656
Net (increase) decrease in prepaid expenses	(24,856)	(2,887)
Net increase (decrease) in payables	(131,463)	127,086
Less: equity reserve additions*	(5,407,077)	(5,788,790)
	\$ (4,986,542)	(1,926,590)

* See Note 12

The accompanying notes are an integral part of the financial statements.

**NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2002**

1. Summary of significant accounting policies

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

Reporting entity

The North Shore Sanitary District was organized in 1914 under the Illinois Sanitary Act of 1911. Under this Act, the District is charged with the responsibility of providing sewage treatment and disposal within its corporate limits. An elected Board of Trustees consisting of five members governs the District. It is a separate and distinct corporation, not part of any other governmental agency, with full powers to levy taxes and to enact necessary ordinances, rules and regulations pertaining to waste treatment matters within its borders.

In evaluating how to define the government, for financial reporting purposes, all potential component units have been considered. The decision to include or exclude a potential component unit in the District's financial statements was made by applying the criteria set forth in GAAP. Under GASB, the primary basis of determining whether outside agencies and organizations should be included in the District's financial statements is the significance of their operational or financial relationships. Based on application of the foregoing criteria, there are no component units included in these statements.

Use of estimates

The 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.

Fund accounting

The District uses proprietary fund accounting for the Wastewater Treatment Fund to report on its financial position and the results of its operations. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Basis of accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Proprietary funds utilize accrual basis accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District applies all applicable GASB pronouncements as well as relevant Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevail.

The personal property replacement tax is recorded as revenue in the same year as collected by the State Department of Revenue (see Note 3).

Property tax revenues are recognized in accordance with the requirements described in Note 4.

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

Investments with an original maturity of one year or more are stated at fair value. Investments with maturities of less than one year are stated at amortized cost. Investments treated as cash equivalents are stated at amortized cost.

Inventory of chemicals, repair parts, general supplies, auto supplies and automotive fuel is recorded using the "moving average" cost method.

Grants from State and Federal agencies are recorded as revenues when earned.

Sewer connection and annexation fees and fair capital contributions are recorded as operating revenues.

Financial instruments

The District's financial instruments that are exposed to concentration of credit risk consist primarily of its cash deposits. The District's cash deposits are placed with financial institutions with high credit rating and partial insurance coverage by the Federal Deposit Insurance Corporation.

The accounts receivable balances, reflecting the District's diversified sources of revenue, are dispersed among a broad user base. As a consequence, concentrations of credit risk are limited. The District routinely assesses the financial strength of its users.

Budgeting (appropriation)

The District prepares its budget (GAAP basis) in conformity with practices prescribed or permitted by the applicable statutes of the State of Illinois. Amounts appropriated are equal to budget amounts reduced by non-cash items such as depreciation and landfill closure costs and increased for capital acquisitions. As prescribed by the Statutes, the District in its budgeting process includes as a resource (amount available for current expenses/expenditures) a portion of the equity that has been accumulated in prior years. The District's fiscal year begins May 1 and ends on April 30. Its procedures for adopting the annual budget is composed of the following stages:

- a) Department heads propose expense/expenditure estimates for the coming year. These estimates, if approved by the General Manager, become his recommendations for presentation to the Board of Trustees as the Tentative Combined Annual Budget and Appropriation Ordinance.
- b) Notice is published in the newspaper that the Tentative Annual Budget and Appropriation Ordinance is available for public inspection. The Ordinance is then presented at a public hearing after thirty days has passed. The Ordinance was approved June 27, 2001.
- c) Immediately after the public hearing, the Board of Trustees adopts the Ordinance in final form, and it is published to meet statutory requirements.
- d) The Annual Budget and Appropriation Ordinance executory phase is performed by the General Manager and department heads, and commences May 1.
- e) The Ordinance may be amended as the need arises, by the Board of Trustees in accordance with the provisions of statutes of the State of Illinois. Amounts in these financial statements reflect all amendments made through October 2002.
- f) Appropriations lapse each April 30.

Fixed assets

Fixed assets, including infrastructure assets, are recorded at cost. Depreciation of all exhaustible fixed assets is charged as an expense against operation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	40 years
Sewers	50 years
Equipment	10-15 years
Improvements	20 years
Vehicles	5-10 years

User charge

A "User Charge" system was implemented by the District on January 1, 1983. The system was developed in accordance with Public Law 92-500 which required recipients of grants from the Environmental Protection Agency to charge certain users of wastewater treatment services a proportionate share of the cost of operations and maintenance. User fee revenue is recognized at the time it is earned.

Net working capital

Net working capital was \$34,822,586 and \$30,901,295 at April 30, 2002 and 2001, respectively.

2. Deposits and investments

The District is authorized to invest in the following:

Savings accounts, certificates of deposit and other time accounts of commercial banks insured by the Federal Deposit Insurance Corporation.

Securities of savings and loan associations insured by the Federal Deposit Insurance Corporation.

Bonds, notes, certificate of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America.

Short term discount obligations of the Federal National Mortgage Association.

Commercial paper issued by corporations organized in the United States with assets exceeding \$500,000,000.

Dividend or share accounts of a credit union insured by the National Credit Union Administration.

Repurchase agreements, as per state law not to exceed 330 days.

The Illinois Funds.

a) Deposits

At year end the carrying amount of the District's cash deposits was \$16,288,819 and the bank balance was \$16,773,397 summarized as follows:

	<u>Carrying amount</u>	<u>Bank balance</u>
Category 1		
Deposits covered by federal depository insurance, or by collateral held by the District, or its agent, in the District's name	\$13,616,206	\$14,100,784
Category 2		
Deposits covered by collateral held by the pledging financial institution's trust department, or its agent, in the District's name	-0-	-0-
Category 3		
Deposits covered by collateral held by the pledging financial institution, or its trust department, or its agent but not in the District's name, and deposits which are uninsured and uncollateralized	2,672,613	2,672,613
	<u>\$16,288,819</u>	<u>\$16,773,397</u>
Petty cash	600	
	<u>\$16,289,419</u>	

b) Investments

At year-end, the District's investments consisted of \$32,465,538 in the Illinois Funds. Cost approximates market for this investment. The District's investments are categorized to give an indication of the level of risk assumed at year end. The investment in the Illinois Funds is non-categorizable, and considered a cash equivalent for the statement of cash flows. Certificates of deposit totaling \$14,000,000 are shown as investments since they had an original maturity greater than three months.

3. Personal property replacement taxes

All personal property taxes in Illinois were abolished effective January 1, 1979 and a Personal Property Replacement Tax was enacted, effective July 1, 1979. The Personal Property Replacement Tax represents an additional State of Illinois income tax for corporations (including certain utilities) and trusts, an income tax for partnerships and S corporations and a tax on the invested capital of public utilities providing gas, communications, electrical, and water services.

Revenues are collected by the State of Illinois and are allocated to the District eight times a year. The replacement tax law provides that monies received should be first applied toward payment of the proportionate amount of debt service which was previously levied against personal property for bonds outstanding as of December 31, 1978, and next applied toward payment of the proportionate share of the pension or retirement obligations which were previously levied on personal property.

4. Property taxes receivable and deferred

The District accounts for property taxes using requirements that taxes relating to the current budget be recognized as revenue currently; and a property tax assessment made during the current year for the purpose of and relating to the following fiscal period budget be recorded as receivable and the related revenue deferred to the period for which it was levied.

Taxes receivable and deferred as of April 30, 2002 and 2001 were from the 2001 and 2000 (respectively) levies and are summarized as follows:

	2002	2001
Taxes receivable	<u>\$10,176,907</u>	<u>\$9,815,000</u>
Less: Deferred	<u>5,394,252</u>	<u>5,012,038</u>
Current revenue	<u>\$ 4,782,655</u>	<u>\$4,802,962</u>

Property taxes attach as an enforceable lien on property on January 1 in the year that taxes are levied, and are payable in the following year in two installments (typically June 1 and September 1). Property taxes are billed and collected by the County, which, in turn remits them to the District. Payments are typically made during the period May through November with a final settlement payment on the following February.

Calendar year 2002 taxes have not been levied and are not, currently measurable. Therefore, the receivable for these taxes and the related deferred revenue have not been recorded.

5. Fixed assets

A summary of changes in fixed assets follows:

	Balance May 1, 2001	Additions*	Deletions	Balance April 30, 2002
COST				
Buildings	\$134,954,222	\$27,810,686		\$162,764,908
Sewers	60,177,428	465,291		60,642,719
Equipment	117,403,524	(28,627,674)	1,220,254	87,555,596
Improvements	25,946,744	4,231,779		30,178,523
Vehicles	1,758,906			1,758,906
Land	3,757,501			3,757,501
Land improvements	1,477,472	1,442,754		2,920,226
Construction in progress	2,830,576	10,132,339	4,341,892	8,621,023
	<u>\$348,306,373</u>	<u>\$15,455,175</u>	<u>\$5,562,146</u>	<u>\$358,199,402</u>
ACCUMULATED DEPRECIATION				
Buildings	\$62,952,485	\$ 4,747,833		\$67,700,318
Sewers	27,491,301	1,202,115		28,693,416
Equipment	49,013,228	4,343,939	1,020,627	52,336,540
Improvements	18,519,208	1,382,737		19,901,945
Vehicles	1,569,106	56,391	.	1,625,497
	<u>\$159,545,328</u>	<u>\$11,733,015</u>	<u>\$1,020,627</u>	<u>\$170,257,716</u>

*Includes Clavey Road and Gurnee plant reclassifications (both cost and estimated depreciation). Prior period adjustments of depreciation total \$479,458. See Note 15.

6. Risk management

The District has purchased insurance from private insurance companies. Risks covered by commercial insurance include general liability, workers' compensation, medical and other. Settled claims for these risks have not exceeded commercial insurance coverage for the past four years and there have been no significant reductions in insurance coverage. The District also maintains a self-insurance program for that portion of health care costs not covered by insurance. The District is liable for claims up to \$100,000 per individual and aggregate claims up to \$1,279,215 annually (\$1,361,184 through April 30, 2002). Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. Estimated unpaid claims are determined by analyzing claims paid subsequent to the end of the fiscal reporting period. These costs have been displayed as expended. Changes in the liability for claims incurred but not reported are summarized as follows:

	2002	2001
May 1 balance	<u>\$173,000</u>	<u>\$185,000</u>
Claims incurred	706,215	916,174
Claims paid	(759,215)	(928,174)
April 30 balance	<u>\$120,000</u>	<u>\$173,000</u>

7. Changes in long-term debt

The following is a summary of long-term debt transactions of the District for the year ended April 30, 2002:

Obligations payable at May 1, 2001	\$14,825,640
Less: Payments made during fiscal year 2002	1,073,719

Obligations payable at April 30, 2002	<u>\$13,751,921</u>

The District entered into a loan agreement in April, 1991 with the Illinois Environmental Protection Agency to finance the expansion of the Waukegan Wastewater Treatment Plant. The maximum amount of the loan was \$22,500,000. Upon completion, a single bond payable to the Illinois Environmental Protection Agency bearing interest at 2.50% was issued under the 1991 General Obligation Bond Ordinance dated February 28, 1991. Semi-annual installments of \$718,846 are due on January 1 and July 1.

Annual requirements are as follows:

Fiscal year Ending April 30	Principal	Interest	Total
2003	\$ 1,100,730	\$ 336,961	\$ 1,437,691
2004	1,128,420	309,271	1,437,691
2005	1,156,807	280,884	1,437,691
2006	1,185,908	251,783	1,437,691
2007	1,215,741	221,950	1,437,691
2008	1,246,325	191,367	1,437,692
2009	1,277,678	160,014	1,437,692
2010	1,309,819	127,872	1,437,691
2011	1,342,769	94,922	1,437,691
2012	1,376,548	61,143	1,437,691
2013	1,411,176	26,515	1,437,691
	<u>\$13,751,921</u>	<u>\$2,062,682</u>	<u>\$15,814,603</u>

8. Accrued sick and vacation pay

The District accounts for unpaid sick and vacation pay by accruing a liability for future sick and vacation benefits that meet the following conditions:

- a) The obligation relating to employee's rights to receive compensation for future absences is attributable to employees services already rendered.
- b) The obligation relates to rights that vest or accumulate.
- c) Payment of the compensation is probable.
- d) The amount can be reasonably estimated.

Sick and vacation pay benefits due on April 30, 2002 totaled \$852,448. Of this, \$465,097 is considered not likely to be paid within one year and has been recorded as a noncurrent liability.

9. Sewage disposal agreement

On March 10, 1994, the County of Lake and District entered into a settlement agreement to compromise certain disputes arising from the previous sewer agreement. Simultaneously with the execution of this agreement, the District delivered \$3,173,000 to the County and a 1994 agreement for sewage disposal was executed. From the effective date of the 1994 agreement, the County had no obligation, responsibility or duty whatsoever to accept sewage from the District.

The District agreed to provide sewage treatment at its Gurnee Sewage Treatment Plant to County customers legally connected to the County Northeast Central Sewerage system either before or within ten (10) years after the effective date of the agreement, or until March 21, 2004. Under the terms of the agreement the County shall pay the District the following fees for the cost of sewage treatment:

- a) The flow component is billed based on actual flow at the District's lowest user charge rate for residential customers, less seven (7) percent.
- b) The property component shall be the most current equalized assessed valuation of the service area times the total tax rate of the District.
- c) The connection fee is determined by multiplying the District's capital recovery fee by 70.94%.

10. Defined Benefit Pension Plan

The District's defined benefit pension plan, Illinois Municipal Retirement (IMRF), provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. IMRF is an agent multiple employer pension plan that acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That

report may be obtained at www.imrf.org/pubs_homepage.htm or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The member rate is established by state statute. The District is required to contribute at an actuarially determined rate. The employer rate for calendar year 2001 was 1.03 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2001 was 10 years.

For December 31, 2001, the District's annual pension cost of \$58,742 was equal to the District's required and actual contributions. The required contribution was determined as part of the December 31, 1999 actuarial evaluation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The assumptions used for the 2001 actuarial valuation were based on the 1996-98-experience study.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
12/31/01	\$ 58,742	100%	-0-
12/31/00	55,540	100%	-0-
12/31/99	183,076	100%	-0-

11. Contributed capital

Transactions in the contributed capital accounts for the year ended April 30, 2002 are summarized as follows:

Balance May 1, 2001	\$98,389,586
Plus: Army Corp of Engineers contribution	976,000
Less: Net loss on disposition of assets attributable to contributed capital	80,664
Depreciation	5,632,208

Balance April 30, 2002	\$ 93,652,714
	=====

Unreserved contributed capital	
Government grants	\$ 51,395,847
Other funds	42,256,867
	<u>-----</u>
	\$ 93,652,714
	<u>=====</u>

12. Equity reserves

The following summary details transactions as directed by the Board of Trustees in reserved retained earnings accounts for the year ended April 30, 2002:

	Reserved for		
	Additions	Replacements	Expansion
May 1, 2001 balance	\$ 3,338,659	\$6,298,193	\$ 8,042,098
Additions:			
Lake County capital fees			1,000,000
Lake County Public Works service contract – Capital Component	1,062,094		
Property taxes – Capital additions component*	5,993,519		
Connection, annexation and fair capital fees			2,269,226
User charge – Capital component**		1,075,757	
Interest on reserved monies**	178,694	222,523	311,388
Subtotal	<u>\$10,572,966</u>	<u>\$7,596,473</u>	<u>\$11,622,712</u>
Subtractions:			
Capital outlay (credits)	9,086,278	1,114,709	(68,648)
April 30, 2002 balance	<u>\$ 1,486,688</u>	<u>\$6,481,764</u>	<u>\$11,691,360</u>

In the 1991 bond issue reserved account, the beginning balance of \$510,298 was increased by property tax collections of \$1,469,405 and decreased by bond and interest payments of \$1,437,691 resulting in an ending balance of \$542,012.

* Effective May 1, 1994, the pro-rata share of property taxes received which had been levied for capital additions was added to the reserve. The remaining property taxes revenues was designated for the treatment of infiltration/inflow as approved by the United States Environmental Protection Agency.

** The Board has designated that sufficient user fee monies be transferred to the reserve for replacements that, when added to interest on reserved monies, total \$1,298,280. Remaining user fees are used for operations.

Accounts payable includes the following amounts to be paid from reserved funds:

	2002	2001
Additions	\$1,596,148	\$1,210,392
Replacements	151,926	124,778
Expansion	2,967	1,750,883
	<u>\$1,751,041</u>	<u>\$3,086,053</u>

13. Contractual commitments

- a) At April 30, 2002, the District had the following major contractual obligations outstanding:

Contractor/Consultant	Project	Contract Amount	Amount Completed April 30, 2002	Amount Remaining
Voest/Alpine Industries, Inc.	Sludge drying equipment*	\$6,209,000	\$4,389,626	\$1,819,374
Lotepro Corporation	Oxygen generation system	1,650,000	-0-	1,650,000
GTS Energy	Transfer system	582,880	58,288	524,592
		<u>\$8,441,880</u>	<u>\$4,447,914</u>	<u>\$3,993,966</u>

- * The District estimates that in the next fiscal year, an additional \$18,800,000 will be expended on engineering and construction costs related to the installation of this equipment.

In addition, the District plans to spend \$4,600,000 to develop a second cell at its Newport Township landfill. Contracts for this effort have not yet been let.

Commitments in excess of reserved amounts will be funded with future revenues.

- b) On May 1, 2001 the District entered a three-year contract with Schneider Corporation to haul sludge from the District's three plants to the District landfill. The estimated cost for the three-year period amounts to \$702,470.
- c) At April 30, 2002, the District had an outstanding contract with Mineral Solutions to operate the sludge processing facility for \$17,166 per month through June 5, 2003. Additional costs have to be rebated to Mineral Solutions under certain circumstances related to the amounts of conditioned fly ash received by the District.

14. Contingencies

- a) The City of Waukegan has filed a lawsuit against the District regarding the siting of a proposed sludge drying facility. There are no monetary damages associated with the lawsuit. An alternate site for this facility is available within the District.
- b) State and federal laws require the District to close its Newport Township landfill when it reaches the end of its operational lifetime and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although the closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the District reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$252,000 reported as landfill closure and postclosure care liability at April 30, 2002 represents the cumulative amount reported to date based on the use of 84% of the estimated licensed capacity of the landfill, which will be utilized. The District will recognize the remaining estimated cost of closure and postclosure care of \$48,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. The District expects to close the landfill in the year 2026. Actual cost may be higher due to inflation, changes in technology and/or changes in regulations.

The District is not required by applicable laws and regulations to make annual contributions to a trust to finance closure and postclosure care. These costs will be paid as incurred from future revenues.

15. Prior period adjustments

- a. Estimated depreciation amounts for the Clavey Road and Gurnee plant expansion projects were updated at substantial completion. The net adjustment on the two projects totaled \$479,459.
- b. An estimate for refunds of \$134,200 for sulfate fees was recorded at April 30, 2001. Subsequently, it was determined that the refunds were not required.

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