

NORTH SHORE SANITARY DISTRICT
Lake County, Illinois

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY FINANCIAL INFORMATION

APRIL 30, 2003

**NORTH SHORE SANITARY DISTRICT
APRIL 30, 2003**

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INDEPENDENT AUDITOR'S REPORT

September 12, 2003

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, 2003 and 2002 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, 2003 and 2002, 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.

Swarzhauber + Co.

Certified Public Accountants

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE BALANCE SHEETS
APRIL 30, 2003 AND 2002**

ASSETS		<u>2003</u>	<u>2002</u>
CURRENT ASSETS			
Cash	\$	1,504,506	\$ 2,289,419
Investments		26,969,275	24,512,672
		<u>\$ 28,473,781</u>	<u>\$ 26,802,091</u>
Receivables			
Property taxes receivable	\$	10,352,846	\$ 10,176,907
Replacement taxes receivable		191,339	192,359
Accrued interest receivable		110,445	34,077
Accounts receivable		954,952	1,159,313
User fees receivable			
Billed and currently collectible net of \$ 97,400 allowance for bad debts (\$171,600 - 2002)		1,466,098	2,039,059
Unbilled (estimated)		2,432,000	3,410,000
Total receivables	\$	<u>15,507,680</u>	<u>\$ 17,011,715</u>
Inventories		734,589	713,794
Prepaid expenses		169,122	157,526
Total current assets	\$	<u>44,885,172</u>	<u>\$ 44,685,126</u>
 RESTRICTED ASSETS			
Investments	\$	<u>24,159,203</u>	<u>\$ 21,952,866</u>
Total restricted assets	\$	<u>24,159,203</u>	<u>\$ 21,952,866</u>
 PROPERTY PLANT AND EQUIPMENT			
Net of \$179,712,261 accumulated depreciation (\$170,257,716 - 2002)	\$	<u>185,431,816</u>	<u>\$ 187,941,686</u>
 NONCURRENT ACCOUNTS RECEIVABLE			
	\$	<u>156,017</u>	<u>-</u>
Total assets	\$	<u><u>254,632,208</u></u>	<u><u>\$ 254,579,678</u></u>

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

LIABILITIES AND DISTRICT EQUITY

	2003	2002
CURRENT LIABILITIES		
Accounts payable		
Unrestricted	\$ 1,423,603	\$ 961,054
Restricted	1,599,123	1,751,041
Total accounts payable	\$ 3,022,726	\$ 2,712,095
Accrued expenses		
Accrued payroll	\$ 180,100	\$ 153,513
Accrued interest	105,427	114,599
Accrued sick and vacation pay/personal time	466,590	387,351
Total accrued expenses	\$ 752,117	\$ 655,463
Current portion - long-term debt	1,128,420	1,100,730
Deferred revenue - property taxes	5,294,886	5,394,252
Total current liabilities	\$ 10,198,149	\$ 9,862,540
NONCURRENT LIABILITIES		
Long-term debt	\$ 12,651,191	\$ 13,751,921
Less: current portion	(1,128,420)	(1,100,730)
	\$ 11,522,771	\$ 12,651,191
Accrued sick pay	88,552	465,097
Landfill closure/postclosure costs	285,000	252,000
Total noncurrent liabilities	\$ 11,896,323	\$ 13,368,288
Total liabilities	\$ 22,094,472	\$ 23,230,828
DISTRICT EQUITY		
Contributed capital - Unreserved	\$ 87,952,785	\$ 93,652,714
Retained earnings		
Reserved		
Additions	\$ 836,489	\$ 1,486,688
Replacements	5,805,383	6,481,764
Expansion	15,287,351	11,691,360
1991 Bond Issue	630,857	542,012
Unreserved	122,024,871	117,494,312
	\$ 144,584,951	\$ 137,696,136
Total district equity	\$ 232,537,736	\$ 231,348,850
Total liabilities and district equity	\$ 254,632,208	\$ 254,579,678

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED APRIL 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Sewer connection, annexation and fair capital contributions	\$ 2,930,751	\$ 2,269,226
General user charge	9,833,953	10,434,976
Sewage treatment contracts	4,159,263	4,237,304
Sulfate fees	381,883	396,759
Laboratory analytical fees	234,988	234,958
Capital fees	716,500	1,000,000
General penalties	-	19,108
Sewer inspection fees	11,840	8,200
Miscellaneous	7,486	8,138
Total operating revenues	<u>\$ 18,276,664</u>	<u>\$ 18,608,669</u>
OPERATING EXPENSES		
Salaries	\$ 5,748,661	\$ 5,457,238
Employee benefits	2,441,721	1,732,361
Process chemicals	1,095,633	1,214,947
Repairs	1,045,700	1,172,035
Supplies	453,721	420,558
Vehicle expense	52,101	57,209
Miscellaneous safety improvements	1,638	1,515
Utilities	4,117,032	4,052,416
Contractual and professional services	1,359,857	1,473,334
Property and liability insurance	588,679	496,289
Consulting and engineering services	12,862	-
Bad debts	92,480	20,208
Other	21,115	22,782
Subtotal	<u>\$ 17,031,200</u>	<u>\$ 16,120,892</u>
Depreciation	11,572,088	11,253,557
Landfill closure/postclosure costs	33,000	19,000
Total operating expenses	<u>\$ 28,636,288</u>	<u>\$ 27,393,449</u>
OPERATING INCOME (LOSS) FORWARDED	\$ (10,359,624)	\$ (8,784,780)

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, 2003 AND 2002**

	2003	2002
OPERATING INCOME (LOSS) brought forward	\$ (10,359,624)	\$ (8,784,780)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	\$ 10,405,099	\$ 9,781,337
Replacement taxes	1,665,607	1,942,254
Interest income	932,028	1,752,414
Interest expense	(327,789)	(355,024)
Miscellaneous	32,760	41,830
Refund of land sale proceeds to users	(1,079,008)	
Gain (loss) on disposition of assets	548,952	(199,527)
Net nonoperating revenues	\$ 12,177,649	\$ 12,963,284
Net income	\$ 1,818,025	\$ 4,178,504
OTHER FINANCING SOURCES (USES)		
Operating Transfer - Depreciation and (gains) losses on disposition of assets attributable to contributed capital	\$ 5,699,931	\$ 5,712,872
Total other financing sources (uses)	\$ 5,699,931	\$ 5,712,872
Increase in retained earnings	\$ 7,517,956	\$ 9,891,376
RETAINED EARNINGS, BEGINNING	137,696,136	128,091,164
PRIOR PERIOD ADJUSTMENTS - See Note 15	(629,141)	(345,259)
RETAINED EARNINGS, ENDING	\$ 144,584,951	\$ 137,637,281
RESERVED FOR: ADDITIONS	\$ 836,489	\$ 1,486,688
REPLACEMENTS	5,805,383	6,481,764
EXPANSION	15,287,351	11,691,360
1991 BOND ISSUE	630,857	542,012
	\$ 22,560,080	\$ 20,201,824
UNRESERVED	122,024,871	117,494,312
	\$ 144,584,951	\$ 137,696,136

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

**NORTH SHORE SANITARY DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 19,880,365	\$ 16,671,841
Cash paid to suppliers for goods and services	(10,856,775)	(10,803,143)
Cash paid to employees for services	(6,019,380)	(5,448,163)
Less: equity reserve additions*	(5,819,530)	(5,407,077)
Net cash provided from (used in) operating activities	\$ (2,815,320)	\$ (4,986,542)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Real estate taxes received	\$ 10,129,794	\$ 9,801,644
Personal property replacement taxes received	1,666,627	2,039,692
Other	28,364	100,685
Less: equity reserve additions*	(7,716,221)	(5,993,519)
Net cash provided from (used in) noncapital financing activities	\$ 4,108,564	\$ 5,948,502
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Equity reserve additions*	\$ 13,535,751	\$ 11,400,596
Interest paid on debt	(336,961)	(363,972)
Proceeds from sale of fixed assets	1,000,000	100
Refund of land proceeds to users	(1,079,008)	
Acquisition of fixed assets	(10,289,929)	(11,472,295)
Principal payments on debt	(1,100,730)	(1,073,719)
Net cash provided from (used in) capital and related financing activities	\$ 1,729,123	\$ (1,509,290)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	\$ 855,660	\$ 2,368,979
Investments sold (purchased) - net	(7,000,000)	19,731,559
Net cash provided from (used in) investing activities	\$ (6,144,340)	\$ 22,100,538
Net increase (decrease) in cash	\$ (3,121,973)	\$ 21,553,208
CASH BALANCE, BEGINNING	34,754,957	13,201,749
CASH BALANCE, ENDING	\$ 31,632,984	\$ 34,754,957
CASH RECONCILIATION		
Cash operating	\$ 1,504,506	\$ 2,289,419
Illinois Funds	30,128,478	32,465,538
	\$ 31,632,984	\$ 34,754,957

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, 2003 AND 2002**

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Net operating income (loss)	\$ (10,359,624)	\$ (8,784,780)
Depreciation	11,572,088	11,253,557
Net (increase) decrease in receivables	1,599,305	1,476,611
Net (increase) decrease in inventory	(20,795)	1,656
Net (increase) decrease in prepaid expenses	(11,596)	(2,887)
Net increase (decrease) in payables	224,832	127,086
Less: equity reserve additions*	(5,819,530)	(5,407,077)
	\$ (2,815,320)	(1,335,834)

* See Note 12

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

**NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2003**

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 prescribed by the Governmental Accounting Standards Board (GASB). 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 26, 2002.
- 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 September 2003.
- 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

The District implemented a "User Charge" system 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 \$34,687,023 and \$34,822,586 at April 30, 2003 and 2002, 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 \$22,503,906 and the bank balance was \$23,797,917 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	\$22,503,906	\$23,797,917
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	- 0 -	-0-
	<u>\$22,503,906</u>	<u>\$23,797,917</u>
Petty cash	600	
	<u>\$22,504,506</u>	

b) Investments

At year-end, the District's investments included \$30,128,478 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 \$21,000,000 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, 2003 and 2002 were from the 2002 and 2001 (respectively) levies and are summarized as follows:

	<u>2003</u>	<u>2002</u>
Taxes receivable	\$10,352,846	\$10,176,907
Less: Deferred	<u>5,294,886</u>	<u>5,394,252</u>
Current revenue	<u>\$ 5,057,960</u>	<u>\$ 4,782,655</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 2003 taxes have not been levied and are not, currently measurable. Therefore, the receivable for these taxes and the related deferred revenue has not been recorded.

5. Fixed assets

A summary of changes in fixed assets follows:

	Balance May 1, 2002	Additions*	Deletions	Balance April 30, 2003
COST				
Buildings	\$162,764,908	\$-6,013,498		\$156,751,410
Sewers	60,642,719	23,000		60,665,719
Equipment	87,555,596	8,145,503	2,958,786	92,742,313
Improvements	30,178,523	890,938		31,069,461
Vehicles	1,758,906	14,681	13,879	1,759,708
Land	3,757,501		220,671	3,536,830
Land Improvements	2,920,226	93,804		3,014,030
Construction in Progress	8,621,023	9,937,235	2,953,652	15,604,606
	<u>\$358,199,402</u>	<u>\$13,091,663</u>	<u>\$6,146,988</u>	<u>\$365,144,077</u>
ACCUMULATED DEPRECIATION				
Buildings	\$67,700,318	\$ 3,519,273		\$71,219,591
Sewers	28,693,416	1,210,182		29,903,598
Equipment	52,336,540	6,060,798	2,728,409	55,668,929
Improvements	19,901,945	1,350,336		21,252,281
Vehicles	1,625,497	56,244	13,879	1,667,862
	<u>\$170,257,716</u>	<u>\$12,196,833</u>	<u>\$2,742,288</u>	<u>\$179,712,261</u>

*Includes ultraviolet system and Gurnee plant reclassifications (both cost and estimated depreciation). Prior period adjustments of depreciation total \$629,141. 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 \$1,559,764 annually (\$1,270,223 through April 30, 2003). 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:

	2003	2002
May 1 balance	\$ 120,000	\$ 173,000
Claims incurred	1,255,516	706,215
Less: claims paid	-1,209,516	-759,215
April 30 balance	<u>\$ 166,000</u>	<u>\$ 120,000</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, 2003:

Obligations payable at May 1, 2002	\$13,751,921
Less: Payments made during fiscal year 2003	1,100,730

Obligations payable at April 30, 2003	<u>\$12,651,191</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
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>\$12,651,191</u>	<u>\$1,725,721</u>	<u>\$14,376,912</u>

8. Accrued sick and vacation pay

The District accounts for unpaid sick and vacation pay (including personal time off) 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, 2003 totaled \$555,142. Of this, \$88,552 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%.

On June 11, 2003, the District approved an amendment to this sewer service agreement, which extended the intergovernmental agreement for a ten- (10) year period from and after the effective date of the amendment.

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% 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 2002 was 1.03% 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 (overfunded liability amortized on open basis). The remaining amortization period at December 31, 2002 was 10 years.

For December 31, 2002, the District's annual pension cost of \$59,037 was equal to the District's required and actual contributions. The required contribution was determined as part of the December 31, 2000 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.

However, the 2002 actuarial valuation information shown in the Schedule of Funding Progress in the required supplemental information is based on the assumptions derived from the 1999-2001 Experience Study. The effect of the assumption change increased the unfunded actuarial accrued liability by \$66,652.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
12/31/02	\$ 59,037	100%	-0-
12/31/01	58,742	100%	-0-
12/31/00	55,540	100%	-0-

11. Contributed capital

Transactions in the contributed capital accounts for the year ended April 30, 2003 are summarized as follows:

Balance May 1, 2002	\$ 93,652,714
Less: Net loss on disposition of assets attributable to contributed capital	224,915
Depreciation	5,475,014
	<u>-----</u>
Balance April 30, 2003	<u>=====</u> \$ 87,952,785
Unreserved contributed capital	
Government grants	\$ 48,508,202
Other funds	39,444,583
	<u>-----</u>
	<u>=====</u> \$ 87,952,785

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, 2003:

	Reserved for		
	<u>Additions</u>	<u>Replacements</u>	<u>Expansion</u>
May 1, 2002 balance	\$ 1,486,688	\$6,481,764	\$ 11,691,360
Additions:			
Lake County Public Works capital fees			716,500
Lake County Public Works service contract – Capital Component	1,104,844		
Property taxes – Capital additions component*	6,189,685		
Connection, annexation and fair capital fees			2,930,751
User charge – Capital component**		1,067,435	
Interest on reserved monies**	55,470	120,805	221,932
Subtotal	<u>\$8,836,687</u>	<u>\$7,670,004</u>	<u>\$15,560,543</u>
Subtractions:			
Capital outlay (credits)	<u>8,000,198</u>	<u>1,864,621</u>	<u>273,192</u>
April 30, 2003 balance	<u>\$ 836,489</u>	<u>\$5,805,383</u>	<u>\$15,287,351</u>

In the 1991 bond issue reserved account, the beginning balance of \$542,012 was increased by property tax collections of \$1,526,536 and decreased by bond and interest payments of \$1,437,691 resulting in an ending balance of \$630,857.

* 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 were 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 \$1,188,240. Remaining user fees are used for operations.

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

	2003	2002
Additions	\$ 740,274	\$1,596,148
Replacements	826,350	151,926
Expansion	32,500	2,967
	<u>\$1,599,124</u>	<u>\$1,751,041</u>

13. Contractual commitments

a) At April 30, 2003, the District had the following major contractual obligations outstanding:

Contractor/Consultant	Project	Contract Amount	Amount Completed April 30, 2003	Amount Remaining
Fibrwrap Construction, Inc.	Rehab of force main	\$ 2,875,957	\$ 521,257	\$2,354,700
Voest/Alpine Industries, Inc.	Sludge drying equipment*	6,230,800	5,697,762	533,038
Minergy Corporation	Sludge melter*	1,941,304	1,653,854	287,450
Clark Dietz, Inc.	Pump drive replacement	152,671	16,476	136,195
Strand Associates, Inc.	Sewer and manhole study	408,000	266,885	141,115
Donahue & Associates	Engineering	967,319	866,918	100,401
		<u>\$12,576,051</u>	<u>\$ 9,023,152</u>	<u>\$3,552,899</u>

*The District plans to spend an additional \$18,000,000 to move its sludge drying project from Waukegan to its Zion landfill. Of this amount, \$11,000,000 is for utility and site improvements including a sewer costing in excess of \$5,000,000. 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 into 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. This contract was extended through April 30, 2004 at an annual cost of \$237,963.
- c) At April 30, 2003, the District had an outstanding contract with Mineral Solutions to operate the sludge processing facility for \$17,166 per month through March, 2004. Additional costs have to be rebated to Mineral Solutions under certain circumstances related to the amounts of conditioned fly ash received by the District.
- d) On June 11, 2003, the District signed an amendment to a real estate contract wherein it sells part of its landfill property to the City of Zion. Under the agreement, the City agrees to incrementally buy 411 acres from the District at a cost of \$46,683 per acre, or a total of \$19,186,713. These incremental purchases should, basically occur on or before May 1, 2023. As part of the agreement, the District has agreed to engineer, design, locate, construct and over-size a sanitary sewer system running from the Gurnee sewage treatment plant to the subject property. (See prior comment regarding \$5,000,000 sewer.)
- e) On June 11, 2003, the District approved a solutions proposal for financial software from Tectura in the amount of \$558,919.

14. Contingencies

- a) The City of Waukegan had 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. Subsequent to April 30, 2003, the City of Waukegan and the District filed papers with the courts to dismiss legal action by both parties.
- b) The District will contract for studies of its sewers performed in the near future to determine the extent of repairs, which may be needed. The District is unable to determine the magnitude of repair costs which may be disclosed from these studies.
- c) 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