

NORTH SHORE SANITARY DISTRICT
Lake County, Illinois

**AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY FINANCIAL INFORMATION**

APRIL 30, 2004

**NORTH SHORE SANITARY DISTRICT
APRIL 30, 2004**

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North Shore Sanitary District

FY04 Management Discussion & Analysis (MD&A)

Governmental Accounting Standards Board (GASB) Statement 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" applies to the District beginning with the fiscal year ending April 30, 2004. The provisions of GASB 34 require that a "management discussion and analysis" be completed and included in the annual audited financial statements. The following MD&A has been prepared to comply with the applicable requirements of GASB 34.

Overview of Financial Statements

This annual report includes the management discussion and analysis, independent auditor's report, financial statements, supplementary financial statements and supplementary information.

Management Discussion and Analysis – The MD&A is intended to provide the reader with an objective and easily readable analysis of the District's financial activities based on currently known facts, decisions, or conditions.

Independent Auditor's Report – This report outlines the scope of work completed by the independent auditor and presents the auditor's opinion on the financial statements.

Basic Financial Statements – Required financial statements include the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows, and the notes to the financial statements.

- Statement of Net Assets – This statement is new to the District in FY04, replacing the comparative balance sheet. This statement presents the District's assets, including investments and property, and reduces those assets by the District's liabilities, including current obligations and long-term debt. The resulting difference equals the net assets of the District, which may be invested in capital, legally restricted or unrestricted.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement is new to the District in FY04, replacing the comparative statement of revenues, expenses and changes in retained earnings. This statement presents the operating revenues and reduces them by operating expenses to determine the District's operating income or loss. The operating income or loss is then adjusted by non-operating transactions and capital contributions to determine the change in net assets during the fiscal year, and resulting net assets at year-end.
- Statement of Cash Flows – This statement presents cash receipts and cash payments from operating activities, noncapital and capital financing activities, and investing activities.
- Notes to the Financial Statements – The notes are an important component of the financial statements, providing detailed information underlying the statements discussed above.

Supplementary Financial Statements – These statements are not required, but have been included by the District to provide the reader with tools to gain a better understanding of the basic financial statements and additional information on the District's financial health.

Supplementary Information – This information may or may not be required and is included to provide the reader with tools to gain a better understanding of the basic financial statements and additional information on the District's financial health.

Financial Comparison: FY04 to FY03

Pursuant to GASB 34, the District is required to present certain condensed financial information, comparing the current year to the previous year, along with an analysis of that information.

Summary – Statement of Net Assets

	Yr. End 4/30/04	Yr. End 4/30/03	\$ Incr (Decr)	% Incr (Decr)
Capital Assets	\$181,182,808	\$185,431,816	(\$4,249,008)	-2.3%
Other Assets	<u>\$72,695,405</u>	<u>\$69,200,392</u>	<u>\$3,495,013</u>	5.1%
Total Assets	\$253,878,213	\$254,632,208	(\$753,995)	-0.3%
Current Liabilities	\$9,062,258	\$10,198,149	(\$1,135,891)	-11.1%
Noncurrent Liabilities	<u>\$10,729,300</u>	<u>\$11,896,323</u>	<u>(\$1,167,023)</u>	-9.8%
Total Liabilities	\$19,791,558	\$22,094,472	(\$2,302,914)	-10.4%
Invested in Capital Assets net of Related Debt	\$169,660,037	\$172,780,625	-\$3,120,588	-1.8%
Restricted Assets	\$690,381	\$630,857	\$59,524	9.4%
Unrestricted Assets	<u>\$63,736,237</u>	<u>\$59,126,254</u>	<u>\$4,609,983</u>	7.8%
Total Net Assets	\$234,086,655	\$232,537,736	\$1,548,919	0.7%

Total assets remained stable. Capital assets decreased slightly as depreciation exceeded additions, and other assets increased slightly due to investments. Liabilities decreased \$2.3 million primarily due to payments made toward the outstanding general obligation bonds and resolution of a large payable outstanding at the end of FY03. Restricted assets represent legal restrictions for bond payments.

Summary – Statement of Revenues, Expenses and Changes in Net Assets

	Yr. End 4/30/04	Yr. End 4/30/03	\$ Incr (Decr)	% Incr (Decr)
Operating Revenues	\$14,759,906	\$14,629,413	\$130,493	0.9%
Nonoperating Revenues	<u>\$13,086,837</u>	<u>\$13,584,446</u>	<u>(\$497,609)</u>	-3.7%
Total Revenues	\$27,846,743	\$28,213,859	(\$367,116)	-1.3%
Depreciation Expense	\$11,047,350	\$11,572,088	(\$524,738)	-4.5%
Other Operating Expense	\$17,040,384	\$17,064,200	(\$23,816)	-0.1%
Nonoperating Expense	<u>\$699,775</u>	<u>\$1,406,797</u>	<u>(\$707,022)</u>	-50.3%
Total Expenses	\$28,787,509	\$30,043,085	(\$1,255,576)	-4.2%
Income (Loss) Before Capital Contributions	(\$940,766)	(\$1,829,226)	\$888,460	48.6%
Capital Contributions	<u>\$3,252,454</u>	<u>\$3,647,251</u>	<u>(\$394,797)</u>	-10.8%
Changes in Net Assets	\$2,311,688	\$1,818,025	\$493,663	27.2%
Beginning Net Assets	\$232,537,736	\$231,348,852	\$1,188,884	0.5%
Prior Period Adjustments	<u>(\$762,769)</u>	<u>(\$629,141)</u>	<u>(\$133,628)</u>	21.2%
Ending Net Assets	\$234,086,655	\$232,537,736	\$1,548,919	0.7%

Operating revenues and expenses remained stable. Nonoperating revenues and expenses were each higher in FY03, as a result of the sale for \$1 million of 16.14 acres of land adjacent to the Waukegan plant and subsequent distribution of those amounts to NSSD customers. The District's ending net assets improved slightly.

Budget Analysis

Pursuant to GASB 34, the District is required to present an analysis of significant variations between amounts budgeted and amounts actually realized, along with an analysis of that information.

Summary – Budget vs. Actual

	FY04 Budget	FY04 Actual	Variance
<i>REVENUES</i>			
Operating Revenues	\$15,567,110	\$14,759,906	(\$807,204)
Nonoperating Revenues	<u>\$12,536,050</u>	<u>\$13,086,837</u>	<u>\$550,787</u>
Total Revenues	\$28,103,160	\$27,846,743	(\$256,417)
<i>EXPENSES</i>			
Personal Services	\$7,660,010	\$7,873,077	(\$213,067)
Supplies & Repairs	\$2,631,960	\$2,446,946	\$185,014
Utilities	\$4,600,640	\$4,432,041	\$168,599
Other Services & Charges	\$2,939,890	\$2,262,245	\$677,645
Depreciation	\$0	\$11,047,350	(\$11,047,350)
Landfill Postclosure	<u>\$0</u>	<u>\$26,075</u>	<u>(\$26,075)</u>
Total Operating Expenses	\$17,832,500	\$28,087,734	(\$10,255,234)
Nonoperating Expenses	<u>\$0</u>	<u>\$699,775</u>	<u>(\$699,775)</u>
Total Expenses	\$17,832,500	\$28,787,509	(\$10,955,009)
Income (Loss) Before Capital Contributions	\$10,270,660	(\$940,766)	(\$11,211,426)

REVENUES

Actual operating revenues were less than budget primarily due to general user charge (-\$520k) and the Great Lakes sewage treatment contract (-\$210k). Actual user charge revenue was similar to FY03 actual revenue. Accordingly, the District's FY04 budget may have been overly optimistic. Great Lakes recently implemented cost savings measures that are likely to continue to result in reduced revenues to the District. These deficiencies were partially replaced by property taxes (+\$190k) and replacement taxes (+\$200k) received in excess of budgeted amounts.

EXPENSES

Supplies & repairs were under budget primarily due to favorable chemical bids, and moderate electricity usage resulted in actual utilities expenditures less than budgeted amounts. Actual personal services exceeded budgeted amounts primarily due to salaries. There were several contributing factors including that new collective bargaining agreement became effective earlier than the budget anticipated, a vacant electrician position was filled, and eligible employees were compensated for unused paid time off (pto) in accordance with District policy. Finally, only 6% of the contingency account was utilized, resulting in the large surplus in other services & charges.

As shown above, the District does not budget for either depreciation or landfill postclosure costs.

Capital Assets & Long-term Debt

Pursuant to GASB 34, the District is required to present an analysis of significant capital asset and long-term debt activity, including a discussion of commitments made for capital expenditures and debt limitations that may affect the financing of planned facilities or services.

Summary - Capital Assets

	Yr. End 4/30/04	Yr. End 4/30/03	\$ Incr (Decr)	% Incr (Decr)
Buildings	\$156,751,410	\$156,751,410	\$0	0.0%
Sewers	\$63,823,244	\$60,665,719	\$3,157,525	5.2%
Equipment	\$94,090,745	\$92,927,313	\$1,163,432	1.3%
Improvements	\$32,332,149	\$31,069,461	\$1,262,688	4.1%
Vehicles	\$1,738,343	\$1,759,708	(\$21,365)	-1.2%
Land	\$3,536,830	\$3,536,830	\$0	0.0%
Land Improvements	\$3,014,030	\$3,014,030	\$0	0.0%
Construction in Progress	<u>\$16,208,858</u>	<u>\$15,604,606</u>	<u>\$604,252</u>	<u>3.9%</u>
Total Capital Assets at Cost	\$371,495,609	\$365,329,077	\$6,166,532	1.7%
Less: Accumulated Depreciation	\$190,312,801	\$179,897,261	\$10,415,540	5.8%
Net Capital Assets	\$181,182,808	\$185,431,816	(\$4,249,008)	-2.3%

The only significant activity regarding capital assets during the fiscal year was the \$3 million increase in sewer assets, resulting from improvements to the F3 forcemain. Accumulated depreciation increased by over \$10 million during the period, leading to a decrease in net capital assets of over \$4 million.

The District's 5 year capital improvement plan provides for major expenditures of over \$48 million in the upcoming fiscal year, including \$19.3 million for the sludge recycling facility. The District intends to finance this and other capital projects using unrestricted assets.

As of April 30, 2004, the District has \$11,522,771 of long-term debt outstanding from the 1991 general obligation bond issue purchased by the Illinois EPA through its Water Pollution Control Revolving Loan Fund. Pursuant to 70 ILCS 2305/9, the District's statutory debt limitation is 5.75% of EAV. Based upon 2003 EAV of \$7,358,287,573 the District's legal debt margin is \$411,578,764. However, as noted above, the District plans on funding planned capital projects using unrestricted assets rather than incurring additional debt.

Conditions Significantly Affecting Financial Position or Operations

Pursuant to GASB 34, the District is required to present a description of currently known facts, decisions or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

As mentioned earlier, the District is using unrestricted assets to pay for major capital projects. Upon completion of those projects, there will be no effect on net assets as capital assets will increase and unrestricted assets will decrease.

INDEPENDENT AUDITOR'S REPORT

September 10, 2004

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

We have audited the accompanying financial statements of the NORTH SHORE SANITARY DISTRICT as of April 30, 2004 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, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of May 1, 2003. This results in a change in the format and content of the financial statements and notes to financial statements.

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 Management's Discussion and Analysis and required supplemental information listed in the accompanying index are 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.

Schwartz & Co.

Certified Public Accountants

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF NET ASSETS
APRIL 30, 2004**

ASSETS

	2004
CURRENT ASSETS	
Cash	\$ 1,862,542
Investments	52,582,997
	\$ 54,445,539
Receivables	-
Property taxes receivable	10,601,975
Replacement taxes receivable	213,093
Accrued interest receivable	107,087
Accounts receivable	1,780,778
User fees receivable	
Billed and currently collectible net of \$68,300 allowance for bad debts	1,237,619
Unbilled (estimated)	2,593,851
Total receivables	\$ 16,534,403
Inventories	786,421
Prepaid expenses	134,086
Total current assets	\$ 71,900,449
RESTRICTED ASSETS	
Investments	690,381
Total restricted assets	\$ 690,381
PROPERTY PLANT AND EQUIPMENT	
Net of \$ 190,312,801 accumulated depreciation	\$ 181,182,808
NONCURRENT ACCOUNTS RECEIVABLE	
Total assets	\$ 253,878,213

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

LIABILITIES

2004

CURRENT LIABILITIES

Accounts payable	\$ 1,315,774
Accrued expenses	
Accrued payroll	\$ 113,403
Accrued interest	96,023
Accrued sick and vacation pay/personal time	481,663
Total accrued expenses	\$ 691,089
Current portion - long-term debt	\$ 1,156,807
- landfill closure/postclosure costs	572,000
Deferred revenue - property taxes	5,326,588
Total current liabilities	\$ 9,062,258

NONCURRENT LIABILITIES

Long-term debt	\$ 11,522,771
Less: current portion	(1,156,807)
	\$ 10,365,964
Accrued sick pay	90,336
Landfill closure/postclosure costs	273,000
Total noncurrent liabilities	\$ 10,729,300
Total liabilities	\$ 19,791,558

NET ASSETS

Invested in capital assets, net of related debt	\$ 169,660,037
Restricted for debt service	690,381
Unrestricted	63,736,237
Total net assets	\$ 234,086,655

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2004**

	2004
OPERATING REVENUES	
General user charge	\$ 9,965,807
Sewage treatment contracts	4,036,182
Sulfate fees	497,615
Laboratory analytical fees	236,276
General penalties	6,707
Sewer inspection fees	8,450
Miscellaneous	8,869
Total operating revenues	\$ 14,759,906
OPERATING EXPENSES	
Salaries	\$ 5,597,062
Employee benefits	2,276,015
Process chemicals	787,756
Repairs	1,134,095
Supplies	459,205
Vehicle expense	62,146
Miscellaneous safety improvements	3,744
Utilities	4,432,041
Contractual and professional services	1,490,853
Property and liability insurance	680,921
Bad debts	30,957
Other	59,514
Subtotal	\$ 17,014,309
Depreciation	11,047,350
Landfill closure/postclosure costs	26,075
Total operating expenses	\$ 28,087,734
OPERATING (LOSS) FORWARDED	\$ (13,327,828)

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

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED APRIL 30, 2004**

	2004
OPERATING (LOSS) brought forward	\$ (13,327,828)
NONOPERATING REVENUES (EXPENSES)	
Property taxes	\$ 10,514,069
Replacement taxes	1,872,936
Interest income	665,713
Interest expense	(299,867)
Miscellaneous	34,119
Gain (loss) on disposition of assets	(399,908)
Net nonoperating revenues	\$ 12,387,062
(Loss) before capital contributions	\$ (940,766)
 CAPITAL CONTRIBUTIONS	 3,252,454
Change in net assets	\$ 2,311,688
 NET ASSETS, BEGINNING	 232,537,736
 PRIOR PERIOD ADJUSTMENTS - See Note 15	 (762,769)
 NET ASSETS, ENDING	 \$ 234,086,655

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

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2004**

2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 14,052,150
Cash paid to suppliers for goods and services	(12,099,558)
Cash paid to employees for services	(5,646,902)
Less: equity reserve additions*	(2,305,150)
Net cash provided from (used in) operating activities	\$ (5,999,460)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Real estate taxes received	\$ 10,296,642
Personal property replacement taxes received	1,851,182
Other	34,119
Less: equity reserve additions*	(7,581,643)
Net cash provided from (used in) noncapital financing activities	\$ 4,600,300

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Equity reserve additions*	\$ 9,886,793
Capital contributions	3,252,454
Interest paid on debt	(309,271)
Acquisition of fixed assets	(8,468,531)
Principal payments on debt	(1,128,420)
Net cash provided from (used in) capital and related financing activities	\$ 3,233,025

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	\$ 669,071
Investments sold (purchased) - net	(3,000,054)
Net cash provided from (used in) investing activities	\$ (2,330,983)
Net increase (decrease) in cash	\$ (497,118)

CASH BALANCE, BEGINNING

31,632,984

CASH BALANCE, ENDING

\$ 31,135,866

CASH RECONCILIATION

Cash	\$ 1,862,542
Illinois Funds	29,273,324
	\$ 31,135,866

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

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2004**

	2004
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES	
Net operating income (loss)	\$ (13,327,828)
Depreciation	11,047,350
Net (increase) decrease in receivables	(707,756)
Net (increase) decrease in inventory	(51,832)
Net (increase) decrease in prepaid expenses	35,036
Net increase (decrease) in payables	(689,280)
Less: equity reserve additions*	(2,305,150)
	\$ (5,999,460)

* See Note 12

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

**NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2004**

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 statement of net assets. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewage treatment services. The District also recognizes as operating revenue sewer connection, annexation and fair capital contribution fees. Operating expenses of the District include the cost of service, administrative expenses and depreciation on capital assets. All revenues (except capital contributions) and expenses not meeting this definition are reported as nonoperating revenues and expenses.

New reporting standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. The District has implemented this Standard for the fiscal year ended April 30, 2004.

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

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 capital contributions.

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 July 9, 2003.
- 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.
- f) Appropriations lapse each April 30.

Fixed assets

Fixed assets, including infrastructure assets, are recorded at cost. These assets, typically, have a minimum cost of \$500 and a life expectancy of more than one year. 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	7-15 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 \$62,838,191 at April 30, 2004.

Fund Equity

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – 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.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislations.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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 \$25,862,542 and the bank balance was \$26,145,966 summarized as follows:

	<u>Carrying Amount</u>	<u>Bank balance</u>
Category 1		
Deposits covered by federal depository insurance, guaranty bonds, or by collateral held by the District, or its agent, in the District's name	\$25,861,973	\$26,145,966
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>\$25,861,973</u>	<u>\$26,145,966</u>
Petty cash	569	
	<u>\$25,862,542</u>	

b) Investments

At year-end, the District's investments included \$29,273,379 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 \$24,000,000 (included in Note 2a) 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, 2004 were from the 2003 levy and are summarized as follows:

Taxes receivable	\$10,601,975
Less: Deferred	5,326,588
Current revenue	<u>\$ 5,275,387</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 2004 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, 2003	Additions	Deletions	Balance April 30, 2004
COST				
Buildings	\$156,751,410			\$156,751,410
Sewers	60,665,719	\$ 3,157,525		63,823,244
Equipment*	92,927,313	2,031,538	\$ 868,106	94,090,745
Improvements	31,069,461	1,262,688		32,332,149
Vehicles	1,759,708	142,247	163,612	1,738,343
Total depreciable	<u>\$343,173,611</u>	<u>\$ 6,593,998</u>	<u>\$1,031,718</u>	<u>\$348,735,891</u>
Land	\$ 3,536,830			\$ 3,536,830
Land Improvements	3,014,030			3,014,030
Construction in Progress	15,604,606	\$ 7,198,250	\$6,593,998	16,208,858
Total nondepreciable	<u>\$ 2,155,466</u>	<u>\$ 7,198,250</u>	<u>\$6,593,998</u>	<u>\$ 22,759,718</u>
	<u>\$365,329,077</u>	<u>\$13,792,248</u>	<u>\$7,625,716</u>	<u>\$371,495,609</u>
ACCUMULATED DEPRECIATION				
Buildings	\$ 71,219,591	\$ 3,864,098		\$ 75,083,689
Sewers	29,903,598	1,215,828		31,119,426
Equipment*	55,853,929	4,686,357	\$ 468,198	60,072,088
Improvements	21,252,281	1,219,689		22,471,970
Vehicles	1,667,862	61,378	163,612	1,565,628
	<u>\$179,897,261</u>	<u>\$11,047,350</u>	<u>\$ 631,810</u>	<u>\$190,312,801</u>

*May 1 balance includes reinstatement of fully depreciated equipment originally costing \$185,000 which had previously been deleted.

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 three 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. 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:

May 1, 2003 balance	\$ 166,000
Claims incurred	1,141,190
Less: claims paid	<u>1,126,190</u>
April 30, 2004 balance	<u>\$ 181,000</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, 2004:

Obligations payable at May 1, 2003	\$12,651,191
Less: Payments made during fiscal year 2004	<u>1,128,420</u>
Obligations payable at April 30, 2004	<u><u>\$11,522,771</u></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:

<u>Fiscal year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2010-2013	<u>5,440,312</u>	<u>310,452</u>	<u>5,750,764</u>
	<u>\$11,522,771</u>	<u>\$1,416,450</u>	<u>\$12,939,221</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.