

NORTH SHORE SANITARY DISTRICT
Lake County, Illinois

ANNUAL FINANCIAL REPORT

YEAR ENDED APRIL 30, 2006

**NORTH SHORE SANITARY DISTRICT
APRIL 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

September 18, 2006

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, 2006 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information listed in the index are not a required part of the financial statements but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

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.

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.

Luxemburger & Co.

Certified Public Accountants

North Shore Sanitary District

FY06 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, basic financial statements, required supplemental information, 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 was 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 was 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.

Required Supplemental Information – Required disclosures regarding Illinois Municipal Retirement Fund funding and trend information.

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 is not 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: FY06 to FY05

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 4/30/06	Yr. End 4/30/05	\$ Incr (Decr)	% Incr (Decr)
Capital Assets	\$199,050,606	\$194,917,624	\$4,132,982	2.1%
Other Assets	60,802,912	65,673,550	(4,870,638)	-7.4%
Total Assets	\$259,853,518	\$260,591,174	(\$737,656)	-0.3%
Current Liabilities	\$12,165,859	\$14,589,513	(\$2,423,654)	-16.6%
Noncurrent Liabilities	8,268,517	9,549,604	(1,281,087)	-13.4%
Total Liabilities	\$20,434,376	\$24,139,117	(\$3,704,741)	-15.3%
Invested in Capital Assets net of Related Debt	\$187,436,945	\$184,551,660	\$2,885,285	1.6%
Restricted Assets	769,470	724,347	45,123	6.2%
Unrestricted Assets	51,212,727	51,176,050	36,677	0.1%
Total Net Assets	\$239,419,142	\$236,452,057	\$2,967,085	1.3%

Total assets remained stable. Capital assets increased and other assets decreased as reserves were utilized to pay for construction in progress, primarily on the sludge recycling facility. Liabilities decreased as work on that project slowed as it neared completion. Restricted assets represent legal restrictions for bond payments.

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

	Yr. End 4/30/06	Yr. End 4/30/05	\$ Incr (Decr)	% Incr (Decr)
Operating Revenues	\$15,408,743	\$14,633,269	\$775,474	5.3%
Nonoperating Revenues	15,761,294	13,866,364	1,894,930	13.7%
Total Revenues	\$31,170,037	\$28,499,633	\$2,670,404	9.4%
Depreciation Expense	\$10,373,887	\$11,013,549	(\$639,662)	-5.8%
Other Operating Expense	18,928,318	17,870,282	1,058,036	5.9%
Nonoperating Expense	297,345	433,751	(136,406)	-31.4%
Total Expenses	\$29,599,550	\$29,317,582	\$281,968	1.0%
Income (Loss) Before Capital Contributions	\$1,570,487	(\$817,949)	\$2,388,436	n/a
Capital Contributions	2,873,518	3,183,351	(309,833)	-9.7%
Changes in Net Assets	\$4,444,005	\$2,365,402	\$2,078,603	87.9%
Beginning Net Assets	236,452,057	234,086,655	2,365,402	1.0%
Prior Period Adjustments	(1,476,920)	-	(1,476,920)	n/a
Ending Net Assets	\$239,419,142	\$236,452,057	\$2,967,085	1.3%

Operating revenues increased slightly due to modest gains in user charge and Lake County Public Works flow component charges. However, these increases in operating revenues were outpaced by increases in operating expenses. Nonoperating revenues increased substantially due to more favorable interest rates on investments and greater personal property replacement tax revenue. The District's ending net assets improved slightly.

The prior period adjustment was recorded as the impact of writing off certain subcells at the District's landfill. Governmental Accounting Standards Board Statement Number 18 requires that capital assets used exclusively for a landfill must be fully depreciated by the date that the landfill stops accepting waste. These subcells had not previously been fully depreciated.

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

	FY06 Budget	FY06 Actual	Variance
<i>REVENUES</i>			
Operating Revenues	\$15,097,940	\$15,408,743	\$310,803
Nonoperating Revenues	<u>13,410,450</u>	<u>15,761,294</u>	<u>2,350,844</u>
Total Revenues	\$28,508,390	\$31,170,037	\$2,661,647
 <i>EXPENSES</i>			
Personal Services	\$8,895,310	\$8,258,547	\$636,763
Supplies & Repairs	1,856,710	2,269,254	(412,544)
Utilities	5,693,840	5,218,176	475,664
Other Services & Charges	3,374,020	3,182,341	191,679
Depreciation	-	10,373,887	(10,373,887)
Total Operating Expenses	19,819,880	29,302,205	(9,482,325)
Nonoperating Expenses	<u>\$0</u>	<u>\$297,345</u>	<u>(\$297,345)</u>
Total Expenses	\$19,819,880	\$29,599,550	(\$9,779,670)
 Income (Loss) Before Capital Contributions	 \$8,688,510	 \$1,570,487	 (\$7,118,023)

REVENUES

Actual operating revenues were slightly better than budgeted primarily due to general user charge revenues (\$380k > FY06 budget or 3.8%). Lake County Public Works contract revenue also exceeded budget, but to a much lesser degree (\$50k > FY06 budget or 1.5%).

The significant expansion in revenues was due to unexpected growth in nonoperating sources. Replacement tax revenue continued to develop with an improving economy (\$1.2 million > FY06 budget or 82%) and interest income rose with rapidly escalating market interest rates (\$940k > FY06 budget or 128%).

EXPENSES

Actual operation and maintenance expenses prior to depreciation increased by more than \$1 million from FY05 but were less than budgeted. The early retirement incentive program had a greater impact on salary and insurance costs

than anticipated, as those expenditures were collectively \$575k less than budgeted. Furthermore, electricity expenditures were almost \$500k less than budget as kWh consumption was at its lowest level since FY99, primarily due to a relatively dry year.

In accordance with customary governmental practices, the District does not budget for non-cash items such as depreciation.

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 4/30/06	Yr. End 4/30/05	\$ Incr (Decr)	% Incr (Decr)
Buildings	\$158,259,432	\$157,039,745	\$1,219,687	0.8%
Sewers	\$64,001,938	\$63,944,238	\$57,700	0.1%
Equipment	\$95,228,937	\$93,952,472	\$1,276,465	1.4%
Improvements	\$33,797,062	\$33,648,638	\$148,424	0.4%
Vehicles	\$1,365,596	\$1,734,734	(\$369,138)	-21.3%
Land	\$4,103,345	\$4,103,345	\$0	0.0%
Land Improvements	\$3,680,344	\$3,680,344	\$0	0.0%
Construction in Progress	<u>\$49,248,957</u>	<u>\$36,994,597</u>	<u>\$12,254,360</u>	<u>33.1%</u>
Total Capital Assets at Cost	\$409,685,611	\$395,098,113	\$14,587,498	3.7%
Less: Accumulated Depreciation	\$210,635,005	\$200,180,490	\$10,454,515	5.2%
Net Capital Assets	\$199,050,606	\$194,917,623	\$4,132,983	2.1%

The most significant activity regarding capital assets during the fiscal year was the \$12 million increase in construction in progress, resulting from work completed on the sludge recycling facility. The completion of that facility is anticipated during fiscal year 2007. Accumulated depreciation increased by more than \$10 million during the period. Net capital assets increased by \$4 million.

The District's 5 year capital improvement plan provides for major expenditures of over \$21 million in the upcoming fiscal year, including over \$3 million for completion of the sludge recycling facility. The District intends to finance this and other capital projects using unrestricted assets.

As of April 30, 2006, the District has \$9,180,056 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. Principal payments made during the year were \$1,185,908. Pursuant to 70 ILCS 2305/9, the District's statutory debt limitation is 5.75% of EAV. Based upon 2005 EAV of \$8,492,159,860 the District's legal debt margin is \$488,299,192. However, as noted above, the District intends to pay for currently planned capital projects using currently held unrestricted assets.

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.

Current uncertainty in the energy markets poses a significant challenge to the District. Electricity and natural gas currently account for 26% of O&M expenditures (almost \$4.9 million in FY06). The District entered a five-year, fixed-price electricity procurement agreement in the beginning of FY07 to provide cost certainty eliminate some of the risk inherent in the electricity market. The District currently pays market rates for natural gas but is continuing to monitor those markets for attractive risk management opportunities.

Over the last few years, Illinois Municipal Retirement Fund (IMRF) investment performance has failed to keep pace with the actuarial rate of return of 7.5%. As a result, the District has moved from an actuarially determined surplus of over \$6 million on 12/31/01 to an unfunded liability of over \$2 million on 12/31/05, and the District's employer contribution rate has risen from 1% of payroll to almost 9%.

The IMRF early retirement incentive one-year election period ended on 11/11/05. 15 of the 27 eligible employees elected to retire, resulting in net annual salary reductions of almost \$550,000. These salary reductions combined with projected benefits savings and reduced by the supplemental employer contributions to IMRF for the ERI, are expected to result in a ten-year net savings of more than \$4 million.

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF NET ASSETS
APRIL 30, 2006**

ASSETS

CURRENT ASSETS

Cash	\$ 2,165,713
Investments	39,388,451
	\$ 41,554,164
Receivables	\$ 11,219,001
Property taxes receivable	391,439
Replacement taxes receivable	190,355
Accrued interest receivable	875,398
Accounts receivable	
User fees receivable	
Billed and currently collectible, net of \$51,000 allowance for bad debts	1,320,673
Unbilled (estimated)	2,133,015
Total receivables	\$ 16,129,881
Inventories	2,201,944
Prepaid expenses	147,453
Total current assets	\$ 60,033,442

RESTRICTED ASSETS

Investments	\$ 769,470
Total restricted assets	\$ 769,470

PROPERTY PLANT AND EQUIPMENT

Net of \$ 210,635,005 accumulated depreciation	\$ 199,050,606
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Total assets	\$ 259,853,518
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The accompanying notes are an integral part of the financial statements.

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 4,574,903
Accrued expenses	
Accrued payroll	\$ 110,403
Accrued interest	75,453
Accrued sick and vacation pay/personal time	458,366
Total accrued expenses	<u>\$ 644,222</u>
Current portion - long-term debt	\$ 1,215,741
- landfill closure/postclosure costs	75,195
Deferred revenue - property taxes	5,655,798
Total current liabilities	<u>\$ 12,165,859</u>

NONCURRENT LIABILITIES

Long-term debt	\$ 9,180,056
Less: current portion	<u>(1,215,741)</u>
	\$ 7,964,315
Accrued sick pay	63,974
Landfill closure/postclosure costs	240,228
Total noncurrent liabilities	<u>\$ 8,268,517</u>
Total liabilities	<u>\$ 20,434,376</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 187,436,945
Restricted for debt service	769,470
Unrestricted	51,212,727
Total net assets	<u><u>\$ 239,419,142</u></u>

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2006**

OPERATING REVENUES		\$	10,384,818
General user charge			4,418,750
Sewage treatment contracts			409,896
Sulfate fees			183,763
Laboratory analytical fees			1,692
General penalties			1,700
Sewer inspection fees			8,124
Miscellaneous			<u>8,124</u>
Total operating revenues		\$	<u>15,408,743</u>
OPERATING EXPENSES		\$	5,473,683
Salaries			2,784,864
Employee benefits			673,194
Process chemicals			1,078,754
Repairs			434,637
Supplies			79,779
Vehicle expense			2,890
Miscellaneous safety improvements			5,218,176
Utilities			2,500,871
Contractual and professional services			612,834
Property and liability insurance			9,052
Consulting and engineering			59,584
Other			<u>18,928,318</u>
Subtotal		\$	<u>10,373,887</u>
Depreciation			<u>29,302,205</u>
Total operating expenses		\$	<u>13,893,462</u>
OPERATING (LOSS) forwarded		\$	<u>(13,893,462)</u>

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, 2006**

OPERATING (LOSS) brought forward	<u>\$ (13,893,462)</u>
NONOPERATING REVENUES (EXPENSES)	
Property taxes	\$ 10,996,696
Replacement taxes	2,816,787
Interest income	1,687,551
Interest expense	(242,037)
Miscellaneous	260,260
Gain (loss) on disposition of assets	(55,308)
Net nonoperating revenues	<u>\$ 15,463,949</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	\$ 1,570,487
CAPITAL CONTRIBUTIONS	<u>2,873,518</u>
Change in net assets	\$ 4,444,005
NET ASSETS, BEGINNING	236,452,057
PRIOR PERIOD ADJUSTMENT- See note 15	<u>(1,476,920)</u>
NET ASSETS, ENDING	<u><u>\$ 239,419,142</u></u>

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

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES	\$ 15,915,430
Cash received from customers	(14,813,942)
Cash paid to suppliers for goods and services	(5,562,346)
Cash paid to employees for services	<u>\$ (4,460,858)</u>
Net cash provided from (used in) operating activities	
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	 \$ 10,801,655
Real estate taxes received	2,722,468
Personal property replacement taxes received	260,260
Other nonoperating revenues	<u>\$ 13,784,383</u>
Net cash provided from (used in) noncapital financing activities	
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	 \$ 2,873,518
Capital contributions	(251,783)
Interest paid on debt	(18,464,108)
Acquisition of fixed assets	128,486
Proceeds from the sale of assets	(1,185,908)
Principal payments on debt	<u>\$ (16,899,795)</u>
Net cash provided from (used in) capital and related financing activities	
 CASH FLOWS FROM INVESTING ACTIVITIES	 \$ 1,676,833
Interest received	\$ (2,066,221)
Investments sold (purchased) - net	<u>\$ (389,388)</u>
Net cash provided from (used in) investing activities	
Net increase (decrease) in cash	\$ (7,965,658)
 CASH BALANCE, BEGINNING	 33,223,071
 CASH BALANCE, ENDING	 <u><u>\$ 25,257,413</u></u>
 CASH RECONCILIATION	 \$ 2,165,713
Cash	\$ 23,091,700
Illinois Funds	<u><u>\$ 25,257,413</u></u>

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

**NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2006**

	<u>2006</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES	
Net operating income (loss)	\$ (13,893,462)
Depreciation	10,373,887
Net (increase) decrease in receivables	506,687
Net (increase) decrease in inventory	(1,344,796)
Net (increase) decrease in prepaid expenses	284,473
Net increase (decrease) in payables	(387,647)
	<u>\$ (4,460,858)</u>

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

**NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2006**

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.

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 implemented this Standard on May 1, 2003.

The District applies all applicable GASB pronouncements as well as relevant Financial Accounting Standards Board (FASB) pronouncements issued on or before November 1, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

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 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. 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. Specifically, facility fees are recorded as a nonoperating revenue.

The personal property replacement tax is recorded as revenue in the same year as collected by the Illinois 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.

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 are 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 8, 2005.
- 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 \$47,867,583 at April 30, 2006.

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, 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 District had the following investments and deposits:

Investment type	Carrying amount	Bank balance
-----	-----	-----
The Illinois Funds	\$23,091,700	\$23,091,700
FDIC insured	510,562	510,562
Collateralized with bank's agent		
In District's name	12,920,972	13,072,020
In bank's name	5,800,000	5,800,000
	-----	-----
	\$42,323,234	\$42,474,282
Petty cash	400	=====

	\$42,323,634	
	=====	

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy is to attain market rates of return on investments, consistent with constraints imposed the safety objective, namely, the avoidance of capital losses, cash flow considerations and Illinois laws that restrict the placement of public funds. At year-end, the Agency's investments are in compliance with the guidelines outlined above related to interest rate risk.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District invests only in categories authorized by the Illinois Compiled Statutes and, per policy, does not make deposits or investments that exceed 75% of the net worth or capital surplus of the institutions, excepting for credit unions where the limit is 50%.

Custodial credit risk - Custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments and deposits. The District only deposits in financial institutions insured by the Federal Deposit Insurance Corporation or National Credit Union Administration. The amount of deposits or investments not insured by an agency of the federal government must be collateralized by an instrument acceptable under the Illinois Public Funds Investment Act with a market value in an amount equal to or at least 110% of the market value of the investment. All such collateral must be held by a safekeeping receipt in the District's name. Of the District's \$41,974,793 on deposit at April 30, 2006, \$5,800,000 was on deposit with third party collateral in the name of the financial institution rather than the District

Concentration of credit risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's policy states that deposits or investments shall not exceed 75% of the net worth or capital stock and surplus of the institution excepting for credit unions which are limited to 50%. At year-end, the District is in compliance with this policy.

b) Investments

At year-end, the District's investments included \$23,091,700 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 \$17,000,000 (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, 2006 were from the 2005 levy and are summarized as follows:

Taxes receivable	\$11,219,001
Less: Deferred	5,655,798
Current revenue	<u>\$ 5,563,203</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 2006 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, 2005	Additions	Deletions	Balance April 30, 2006
COST				
Buildings	\$157,039,745	\$1,219,687		\$158,259,432
Sewers	63,944,238	57,700		64,001,938
Equipment	93,952,472	2,480,118	1,203,653	95,228,937
Improvements	33,648,638	148,424		33,797,062
Vehicles	1,734,734	7,294	376,432	1,365,596
Total depreciable	<u>\$350,319,827</u>	<u>\$ 3,913,223</u>	<u>\$1,580,085</u>	<u>\$352,652,965</u>
Land	\$ 4,103,345			\$ 4,103,345
Land Improvements	3,680,344			3,680,344
Construction in Progress	36,994,597	16,167,583	\$ 3,913,223	49,248,957
Total nondepreciable	<u>\$ 44,778,286</u>	<u>\$16,167,583</u>	<u>\$3,913,223</u>	<u>\$ 57,032,646</u>
	<u>\$ 395,098,113</u>	<u>\$20,080,806</u>	<u>\$5,493,308</u>	<u>\$409,685,611</u>