NORTH SHORE SANITARY DISTRICT
Lake County, Illinois

ANNUAL FINANCIAL REPORT

YEAR ENDED APRIL 30, 2007

NORTH SHORE SANITARY DISTRICT
APRIL 30, 2007

INDEX

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INDEPENDENT AUDITOR'S REPORT

October 9, 2007

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

We have audited the accompanying basic financial statements of the NORTH SHORE SANITARY DISTRICT as of April 30, 2007 as listed in the index. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the NORTH SHORE SANITARY DISTRICT as of April 30, 2007, 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 basic 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 basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial schedules 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 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 8 to the financial statements.

Sweetzmauber & Co.

Certified Public Accountants

North Shore Sanitary District
FY07 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*" applied 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, supplementary financial schedules 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 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 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 – This includes required disclosures regarding Illinois Municipal Retirement Fund funding and trend information.

Supplementary Financial Schedules – These schedules 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: FY07 to FY06

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 4/30/07	Yr. End 4/30/06	$ Incr (Decr)	% Incr (Decr)
Capital Assets	$196,471,737	$199,050,606	($2,578,869)	-1.3%
Other Assets	$71,015,483	$60,802,912	$10,212,571	16.8%
Total Assets	**$267,487,220**	**$259,853,518**	**$7,633,702**	**2.9%**
Current Liabilities	$15,416,196	$12,165,859	$3,250,337	26.7%
Noncurrent Liabilities	$7,016,192	$8,268,517	($1,252,325)	-15.1%
Total Liabilities	**$22,432,388**	**$20,434,376**	**$1,998,012**	**9.8%**
Invested in Capital Assets net of Related Debt	$184,173,733	$187,436,945	-$3,263,212	-1.7%
Restricted Assets	$860,368	$769,470	$90,898	11.8%
Unrestricted Assets	$60,020,731	$51,212,727	$8,808,004	17.2%
Total Net Assets	**$245,054,832**	**$239,419,142**	**$5,635,690**	**2.4%**

Total assets, liabilities and net assets all remained relatively stable. Other assets, including unrestricted assets, increased in large part due to the District's settlement agreement with the Navy that will be discussed in the next section. Restricted assets represent legal restrictions for bond payments.

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

	Yr. End 4/30/07	Yr. End 4/30/06	$ Incr (Decr)	% Incr (Decr)
Operating Revenues	$14,380,148	$15,408,743	($1,028,595)	-6.7%
Nonoperating Revenues	$17,086,910	$15,761,294	$1,325,616	8.4%
Total Revenues	**$31,467,058**	**$31,170,037**	**$297,021**	**1.0%**
Depreciation Expense	$10,920,905	$10,373,887	$547,018	5.3%
Other Operating Expense	$22,255,649	$18,928,318	$3,327,331	17.6%
Nonoperating Expense	$352,128	$297,345	$54,783	18.4%
Total Expenses	**$33,528,682**	**$29,599,550**	**$3,929,132**	**13.3%**
Income (Loss) Before Capital contributions	($2,061,624)	$1,570,487	($3,632,111)	231.3%
Capital Contributions	$7,697,314	$2,873,518	$4,823,796	167.9%
Changes in Net Assets	**$5,635,690**	**$4,444,005**	**$1,191,685**	**26.8%**
Beginning Net Assets	$239,419,142	$236,452,057	$2,967,085	1.3%
Prior Period Adjustments	$0	($1,476,920)	$1,476,920	n/a
Ending Net Assets	**$245,054,832**	**$239,419,142**	**$5,635,690**	**2.4%**

Nonoperating revenue increases were the result of favorable interest rates on investments and greater property tax and replacement tax revenues. Operating expenses increased as construction of the sludge recycling facility was completed and that facility became operational. This, in turn, contributed to the corresponding loss before capital contributions. The significant increase in capital contributions reflects an agreement reached with the Navy to reimburse the District $6,742,891 for previously completed capital improvement projects benefiting the Great Lakes Naval Base. These payments will be made monthly, under a 15-year reimbursement schedule, and the estimated present value of these payments of $5,037,964 was recorded as revenue during fiscal year 2007. 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

	FY07 Budget	FY07 Actual	Variance
REVENUES			
Operating Revenues	$15,463,709	$14,380,148	($1,083,561)
Nonoperating Revenues	$14,545,063	$17,086,910	$2,541,847
Total Revenues	**$30,008,772**	**$31,467,058**	**$1,458,286**
EXPENSES			
Personal Services	$8,977,150	$8,161,710	$815,440
Supplies & Repairs	$2,394,250	$2,293,767	$100,483
Utilities	$8,399,620	$7,446,345	$953,275
Other Services & Charges	$3,563,170	$4,353,827	($790,657)
Depreciation	$0	$10,920,905	($10,920,905)
Total Operating Expenses	$23,334,190	$33,176,554	($9,842,364)
Nonoperating Expenses	$0	$352,128	($352,128)
Total Expenses	**$23,334,190**	**$33,528,682**	**($10,194,492)**
Income (Loss) Before Capital Contributions	$6,674,582	($2,061,624)	($8,736,206)

REVENUES

Actual operating revenues were less than budgeted primarily due to general user charge revenues ($904k < budget or 8%). This is more likely the result of the estimates used for recording year-end unbilled revenues than from any decrease in customers' use of the District's services.

Nonoperating revenues again exceeded expectations due to property taxes ($390k > budget or 4%), replacement taxes ($945k > budget or 43%) and interest income ($1,178k > budget or 103%). Each of these revenues is dependent upon general economic and/or market conditions and the District budgets these revenues very conservatively, to avoid deficits should those conditions deteriorate.

EXPENSES

Actual operation and maintenance expenses prior to depreciation increased by more than $3 million from FY06 but were less than budgeted. The District's self-insurance program for health and dental coverage had an extremely favorable year, experiencing its lowest claims costs in several years and resulting in actual employee insurance costs $815k less than budgeted. Electricity expenditures were about $1 million less than budget. Plant and pumping station kWh consumption was slightly better than anticipated, resulting in half of the difference. The other half was the result of the optimization of the sludge recycling facility taking longer than expected, resulting in run-times less than those budgeted. Finally, contractual service costs were about $1 million greater than budgeted, due in a large part to sludge hauling and disposal fees during the completion of construction and subsequent optimization of the sludge recycling facility. Staffing requirements for the new facility were greater than originally anticipated and another significant contribution toward the increase in contractual services expenditures.

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 4/30/07	Yr. End 4/30/06	$ Incr (Decr)	% Incr (Decr)
Buildings	$179,760,592	$158,259,432	$21,501,160	13.6%
Sewers	$64,001,938	$64,001,938	$0	0.0%
Equipment	$118,538,632	$95,358,549	$23,180,083	24.3%
Improvements	$37,042,309	$33,797,062	$3,245,247	9.6%
Vehicles	$1,278,114	$1,235,984	$42,130	3.4%
Land	$4,970,259	$4,103,345	$866,914	21.1%
Land Improvements	$3,853,729	$3,680,344	$173,385	4.7%
Construction in Progress	$8,081,202	$49,248,957	($41,167,755)	-83.6%
Total Capital Assets at Cost	$417,526,775	$409,685,611	$7,841,164	1.9%
Less: Accumulated Depreciation	$221,055,038	$210,635,005	$10,420,033	4.9%
Net Capital Assets	**$196,471,737**	**$199,050,606**	**($2,578,869)**	-1.3%

The most significant activity regarding capital assets during the fiscal year was the completion of the sludge recycling facility at a total capitalized cost of $47,126,441. The completion of this project is reflected in the significant increases to buildings and equipment and decrease to construction in progress. Accumulated depreciation increased by more than $10 million during the period. Net capital assets decreased by $2.6 million.

The District's 5-year capital improvement plan provides for major expenditures of over $22 million in FY08, $7 million of which is planned for the Lake Forest pumping station sewage storage basin currently under construction. This basin is part of the forcemain failure contingency plan, which has a total expected cost of over $18 million with almost $10 million anticipated to be spent to complete this project during FY09. The District intends to finance this and other capital projects using unrestricted assets.

As of April 30, 2007, the District has $7,964,315 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 $1,215,741. Pursuant to 70 ILCS 2305/9, the District's statutory debt limitation is 5.75% of EAV. Based upon 2006 EAV of $9,257,872,253 the District's legal debt margin is $524,363,340. 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 the increase in capital assets will be offset by a corresponding decrease in unrestricted assets.

Current uncertainty in the energy markets poses a significant challenge to the District. Electricity and natural gas accounted for $7.0 million or 31% of O&M expenditures (excluding depreciation) during FY07 ($4.9 million or 26% in FY06). The District entered a five-year, fixed-price electricity procurement agreement in the beginning of FY07 to eliminate much of the risk inherent in that market. However, it should be noted that the District is unable to lock or otherwise control some costs that continue to increase such as PJM (the regional transmission organization) capacity charges and ComEd (the local utility) demand/delivery costs. The District pays monthly market-based rates for natural gas but is continuing to monitor those markets for attractive risk management opportunities, such as the strategy implemented in FY06 to build a storage reserve during the historically lower-priced summer months.

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 almost $2 million on 12/31/06, and the District's employer contribution rate has risen from 1% of payroll in 2001 to almost 13% during 2007.

In an effort to reduce ongoing employment-related expenditures, the District offered an IMRF early retirement incentive during FY05 & FY06. 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. A total of six positions were eliminated through this initiative, reducing the District's employee count from 109 full time employees on 4/30/05 to 102 on 4/30/07.

NORTH SHORE SANITARY DISTRICT
STATEMENT OF NET ASSETS
APRIL 30, 2007

ASSETS

CURRENT ASSETS		
Cash	$	2,812,624
Investments		42,197,171
	$	45,009,795
Receivables		
Property taxes receivable	$	11,572,340
Replacement taxes receivable		564,051
Accrued interest receivable		206,409
Great Lakes capital component fees		915,695
Accounts receivable		1,659,274
User fees receivable		
Billed and currently collectible, net of $50,049 allowance for bad debts		1,282,306
Unbilled (estimated)		2,174,706
Total receivables	$	18,374,781
Inventories		2,175,577
Prepaid expenses		139,291
Total current assets	$	65,699,444
RESTRICTED ASSETS		
Investments	$	860,368
Total restricted assets	$	860,368
PROPERTY PLANT AND EQUIPMENT		
Net of $ 221,055,038 accumulated depreciation	$	196,471,737
NONCURRENT ACCOUNTS RECEIVABLE	$	4,455,671
Total assets	$	267,487,220

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

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 7,556,475
Accrued expenses	
Accrued payroll	$ 137,145
Accrued interest	65,460
Accrued sick and vacation pay/personal time	486,277
Total accrued expenses	$ 688,882
Current portion - long-term debt	$ 1,246,325
- landfill closure/postclosure costs	66,795
Deferred revenue - property taxes	5,836,886
- other	20,833
Total current liabilities	$ 15,416,196
NONCURRENT LIABILITIES	
Long-term debt	$ 7,964,315
Less: current portion	(1,246,325)
	$ 6,717,990
Accrued sick pay	64,744
Landfill closure/postclosure costs	233,458
Total noncurrent liabilities	$ 7,016,192
Total liabilities	$ 22,432,388

NET ASSETS

Invested in capital assets, net of related debt	$ 184,173,733
Restricted	860,368
Unrestricted	60,020,731
Total net assets	$ 245,054,832

NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2007

OPERATING REVENUES		
General user charge	$	9,750,832
Sewage treatment contracts		4,226,578
Sulfate fees		215,128
Laboratory analytical fees		180,538
General penalties		250
Sewer inspection fees		2,200
Miscellaneous		4,622
Total operating revenues	$	14,380,148
OPERATING EXPENSES		
Salaries	$	5,638,720
Employee benefits		2,522,990
Process chemicals		693,369
Repairs		1,029,344
Supplies		491,007
Vehicle expense		77,123
Miscellaneous safety improvements		2,924
Utilities		7,446,345
Contractual and professional services		3,499,128
Property and liability insurance		568,119
Consulting and engineering		20,530
Other		266,050
Subtotal	$	22,255,649
Depreciation		10,920,905
Total operating expenses	$	33,176,554
OPERATING (LOSS) forwarded	$	(18,796,406)

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

NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED APRIL 30, 2007

OPERATING (LOSS) brought forward	$	(18,796,406)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	$	11,345,897
Replacement taxes		3,130,845
Interest income		2,320,075
Interest expense		(211,958)
Miscellaneous		290,093
Gain (loss) on disposition of assets		(140,170)
Net nonoperating revenues	$	16,734,782
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	$	(2,061,624)
CAPITAL CONTRIBUTIONS		7,697,314
Change in net assets	$	5,635,690
NET ASSETS, BEGINNING		239,419,142
NET ASSETS, ENDING	$	245,054,832

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

NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	13,426,803
Cash paid to suppliers for goods and services		(15,148,621)
Cash paid to employees for services		(5,885,299)
Net cash provided from (used in) operating activities	$	(7,607,117)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Real estate taxes received	$	11,173,646
Personal property replacement taxes received		2,958,233
Other nonoperating revenues		290,093
Net cash provided from (used in) noncapital financing activities	$	14,421,972
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contibutions	$	2,512,926
Interest paid on debt		(221,951)
Acquisition of fixed assets		(6,647,581)
Principal payments on debt		(1,215,741)
Net cash provided from (used in) capital and related financing activities	$	(5,572,347)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	$	2,304,021
Investments sold (purchased) - net		5,563,995
Net cash provided from (used in) investing activities	$	7,868,016
Net increase (decrease) in cash	$	9,110,524
CASH BALANCE, BEGINNING		25,257,413
CASH BALANCE, ENDING	$	34,367,937
CASH RECONCILIATION		
Cash	$	2,812,624
Illinois Funds		31,555,313
	$	34,367,937

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

NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED APRIL 30, 2007

RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES

Net operating income (loss)	$	(18,796,406)
Depreciation		10,920,905
Net (increase) decrease in receivables		(974,179)
Net (increase) decrease in inventory		26,367
Net (increase) decrease in prepaid expenses		8,162
Net increase (decrease) in deferred operating revenues		20,833
Net increase (decrease) in payables		1,187,201
	$	(7,607,117)

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

NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

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 budgeted operations and maintenance amounts increased for approved 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 14, 2006.

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 $50,283,248 at April 30, 2007.

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	$ 31,555,313	$ 31,555,498
FDIC Insured	402,227	402,227
Collateralized with bank's agent		
In District's name	6,612,223	6,770,664
In bank's name	7,300,000	7,300,000
	$ 45,869,763	$ 46,028,389
Petty cash	400	
	$ 45,870,163	

Of this total, $45,009,795 is shown as a current asset and $860,368 is shown as a restricted asset.

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 District'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 $45,869,763 on deposit at April 30, 2007, $7,300,000 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 $31,555,313 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 $11,502,226 (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, 2007 were from the 2006 levy dated November 8, 2006 and are summarized as follows:

Taxes receivable	$11,572,340
Less: Deferred	5,836,886
Current revenue	$ 5,735,454

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 2007 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. Noncurrent receivables

a) Great Lakes Naval Training Center Agreement

On March 21, 2007, the District's board approved modification P00014 to its Navy Sewerage Service Contract. This amendment requires the Navy to reimburse the District $6,742,891 for its share of previously completed capital improvement projects benefiting Naval Station Great Lakes and establishes a methodology for the Navy to pay its share of future capital improvement projects in a timely manner. The repayment schedule calls for monthly payments of $62,500 for the first three years of the contract, $83,330 for the next two years and $20,775 for years six through fifteen of the contract. Using an interest rate of 6%, the present value of the contract was $5,037,964 was recorded as revenue. The first installment was billed in May, 2007 and was retroactive to October, 2006. The difference between the payment schedule and the amortization of the present value ($146,423) was, also, recorded as capital component fees. At April 30, 2007, the District has a receivable balance of $5,184,387 from the Great Lakes Naval Training Center. Of this, $4,268,693 will not be received within one year and is recorded as a noncurrent receivable.

b) Commonwealth Edison

In January, 2005, the District made a deposit with Commonwealth Edison for a line extension in the amount of $276,474. Pursuant to the agreement terms, the District will receive annual credits of 25% of the delivery service charges paid to Commonwealth Edison from the line until the balance of this deposit is returned. At April 30, 2007 the District has a receivable balance of $236,978. Of this, $186,978 will not be received within one year and is recorded as a noncurrent receivable.

6. Fixed assets

A summary of changes in fixed assets follows:

	Balance May 1, 2006	Additions	Deletions	Balance April 30, 2007
COST				
Buildings	$ 158,259,432	$21,501,160		$ 179,760,592
Sewers	64,001,938			64,001,938
Equipment	95,358,549	23,809,327	$ 629,244	118,538,632
Improvements	33,797,062	3,245,247		37,042,309
Vehicles	1,235,984	53,927	11,797	1,278,114
Total depreciable	$ 352,652,965	$48,609,661	$ 641,041	$ 400,621,585