NORTH SHORE SANITARY DISTRICT
Lake County, Illinois

ANNUAL FINANCIAL REPORT

YEAR ENDED APRIL 30, 2009

NORTH SHORE SANITARY DISTRICT
APRIL 30, 2009

INDEX

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

September 3, 2009

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, 2009 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, 2009, 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 accounting principles generally accepted in the United States of America. 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.

Sikich Timber & Co.

Certified Public Accountants

Management's Discussion and Analysis
(Required Supplementary Information)

North Shore Sanitary District

FY09 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 (IMRF) 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: FY09 to FY08

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 4/30/09	Yr. End 4/30/08	$ Incr (Decr)	% Incr (Decr)
Capital Assets	$189,128,430	$195,649,843	($6,521,413)	-3.3%
Other Assets	$67,905,953	$69,499,805	($1,593,852)	-2.3%
Total Assets	**$257,034,383**	**$265,149,648**	**($8,115,265)**	**-3.1%**
Current Liabilities	$11,131,303	$13,652,306	($2,521,003)	-18.5%
Noncurrent Liabilities	$4,378,071	$5,618,317	($1,240,246)	-22.1%
Total Liabilities	**$15,509,374**	**$19,270,623**	**($3,761,249)**	**-19.5%**
Invested in Capital Assets Net of Related Debt	$183,260,805	$187,042,603	($3,781,798)	-2.0%
Restricted Assets	$949,612	$903,936	$45,676	5.1%
Unrestricted Assets	$57,314,592	$57,932,486	($617,894)	-1.1%
Total Net Assets	**$241,525,009**	**$245,879,025**	**($4,354,016)**	**-1.8%**

Capital assets decreased, as depreciation was almost 200% of the capital outlay throughout the fiscal year. The decrease in liabilities is the result of fewer year-end accounts payable, due to reduced construction activity, and the retirement of $1.3 million of debt. Restricted assets represent legal restrictions for bond payments. Net assets decreased by $4.4 million however, current assets exceed current liabilities by more than $49 million.

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

	Yr. End 4/30/09	Yr. End 4/30/08	$ Incr (Decr)	% Incr (Decr)
Operating Revenues	$14,296,086	$14,582,268	($286,182)	-2.0%
Nonoperating Revenues	$17,720,022	$17,647,116	$72,906	0.4%
Total Revenues	**$32,016,108**	**$32,229,384**	**($213,276)**	**-0.7%**
Depreciation Expense	$12,361,476	$12,708,341	($346,865)	-2.7%
Other Operating Expense	$24,659,687	$23,798,821	$860,866	3.6%
Nonoperating Expense	$176,765	$478,828	($302,063)	-63.1%
Total Expenses	**$37,197,928**	**$36,985,990**	**$211,938**	**0.6%**
Income (Loss) Before Capital Contributions	($5,181,820)	($4,756,606)	($425,214)	-8.9%
Capital Contributions	$827,804	$5,580,799	($4,752,995)	-85.2%
Changes in Net Assets	**($4,354,016)**	**$824,193**	**($5,178,209)**	**-628.3%**
Beginning Net Assets	$245,879,025	$245,054,832	$824,193	0.3%
Ending Net Assets	**$241,525,009**	**$245,879,025**	**($4,354,016)**	**-1.8%**

Net revenues (Operating and Nonoperating) were off only slightly as a contractor settlement for $1.5 million helped offset slumping interest income. Operating expenses increased slightly, with the bulk of the 3.6% growth attributable to ComEd (the local electric utility) & PJM (the regional electricity transmission organization) rate, rider and tariff escalation and annual employee salary and wage adjustments. Capital contributions were again significantly lower, as connection, annexation and County capital fees continued their slide from $2.9 million (FY06) to $2.5 million (FY07) to $1.2 million (FY08) to $0.5 million (FY09). This drop in connection-related revenue reflects both the diminishing number of available development sites within the service area and the well-publicized economic and construction industry downturn. The drop in capital contributions was magnified as the District recognized capital component fees of over $4.4 million from the Navy in FY08 (predominantly related to the sludge recycling facility), but only $0.3 million in FY09. These capital component fees are paid by the Navy pursuant to their agreement to reimburse NSSD capital improvement projects that benefit the Great Lakes Naval Base and Fort Sheridan. The decline in the District's ending net assets essentially mirrored the decreases in capital contributions.

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

	FY09 Budget	FY09 Actual	Variance
REVENUES			
Operating Revenues	$15,577,712	$14,296,086	($1,281,626)
Nonoperating Revenues	$15,977,445	$17,720,022	$1,742,577
Total Revenues	**$31,555,157**	**$32,016,108**	**$460,951**
EXPENSES			
Personal Services	$9,246,380	$9,394,808	($148,428)
Supplies & Repairs	$2,887,660	$2,661,856	$225,804
Utilities	$9,349,490	$8,447,306	$902,184
Other Services & Charges	$4,648,320	$4,155,717	$492,603
Depreciation	$0	$12,361,476	($12,361,476)
Total Operating Expenses	$26,131,850	$37,021,163	($10,889,313)
Nonoperating Expenses	$0	$176,765	($176,765)
Total Expenses	**$26,131,850**	**$37,197,928**	**($11,066,078)**
Income (Loss) Before Capital Contributions	$5,423,307	($5,181,820)	($10,605,127)
Capital Contributions	$1,969,300	$827,804	($1,141,496)
Change in Net Assets	$7,392,607	($4,354,016)	($11,746,623)

REVENUES

Operating revenues were very close to expectations, with the exception of user charge revenues that came in 9% under budget. A contractor settlement contributed most of the positive result for nonoperating revenues as encouraging property and replacement tax revenues were offset by disappointing interest income.

EXPENSES

Actual FY09 operation and maintenance expenses prior to depreciation increased by $0.9 million or 3.6% from FY08 but were less than budgeted by $1.5 million or 5.6%. Electricity expenditures were about $530k or 9% more than budgeted, primarily the result of ComEd and PJM increases to their rates, riders and tariffs. These pass-through charges affect all large customers and, unlike the District's electricity generation contract, cannot be hedged. However, monthly natural gas commodity prices plunged during the fiscal year, from a high of $1.29/therm in July 2008 to a low of $0.35/therm in April 2009. As a result, actual natural gas expenditures were $1.4 million or 45% under budget. Finally, contractual services costs were about $335k or 9% less than budgeted, as the repair of the dryer heat exchanger coil was completed in far less time than originally anticipated, resulting in significant cost savings.

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

<u>Capital Assets & Long-term Debt</u>

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 4/30/09	Yr. End 4/30/08	$ Incr (Decr)	% Incr (Decr)
Buildings	$180,180,927	$180,181,667	($740)	0.0%
Sewers	$68,421,663	$68,285,649	$136,014	0.2%
Equipment	$120,995,027	$119,881,602	$1,113,425	0.9%
Improvements	$40,556,065	$39,604,487	$951,578	2.4%
Vehicles	$1,688,019	$1,310,776	$377,243	28.8%
Land	$4,888,120	$4,970,259	($82,139)	-1.7%
Land Improvements	$3,758,472	$3,758,472	$0	0.0%
Construction in Progress	$12,987,137	$10,680,961	$2,306,176	21.6%
Total Capital Assets at Cost	$433,475,430	$428,673,873	$4,801,557	1.1%
Less: Accumulated Depreciation	$244,347,000	$233,024,030	$11,322,970	4.9%
Net Capital Assets	**$189,128,430**	**$195,649,843**	**($6,521,413)**	**-3.3%**

Capital asset activity slowed during the fiscal year following the recent construction of the retention basin at the Lake Forest Pumping Station and the sludge recycling facility. The major initiative during FY09 was the Sludge Management Study & Improvements project that resulted in the construction of sewage screening improvements at each of the three plants. This project, which is expected to be completed and capitalized in the next fiscal year, is budgeted for more than $5 million. Accumulated depreciation increased by more than $11 million during the period. Net capital assets decreased by $6.5 million, primarily as a result of depreciation doubling the capital outlay during the year.

The District's 5-year capital improvement plan provides for major expenditures of over $40 million in FY10. However, this CIP will be scaled back significantly, as many of the large projects included were specifically contingent upon receiving American Recovery & Reinvestment Act stimulus funding or Build Illinois capital funding, and the District's applications and requests for this funding were never approved. Accordingly, in lieu of federal or state grant money, the District intends to continue financing its capital projects using unrestricted assets.

As of April 30, 2009, the District has $5,440,313 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 $1,277,677. Pursuant to 70 ILCS 2305/9, the District's statutory debt limitation is 5.75% of EAV. Based upon 2008 EAV of $10,245,476,382 the District's legal debt margin is $583,674,579. 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.

As noted earlier, the District's 5-year capital improvement plan provides for major expenditures of over $40 million in FY10 and contemplates an additional $59 million to be spent in future years. However, significant projects included in this CIP were contingent upon the receipt of federal or state grant funding. Absent that funding, those projects will be postponed, revised or canceled. Accordingly, it is expected that the FY10 CIP will be scaled back and actual capital expenditures during the fiscal year will be far less than originally budgeted.

The District has contracted with Donohue & Associates for the operation and maintenance of its sludge recycling facility. The term of the agreement is for a period not to exceed 24 months (March 31, 2011). The District will evaluate its options for operating that facility, which may or may not be more costly than the current contractual arrangement.

Expenditures for energy continue to comprise a significant use of District funds. Even with natural gas prices plunging during the year, FY09 electricity and natural gas accounted for almost $8.1 million or 33% of total O&M expenditures, excluding depreciation (vs. FY08 of $7.6 million or 32%). In FY07, the District entered a five-year, fixed-price procurement agreement for its expected electricity consumption to eliminate much of the risk inherent in that market. However, the District is unable to establish fixed pricing for either PJM (the regional transmission organization) charges or ComEd (the local utility) demand/delivery costs and the charges from these entities continue to climb at astonishing rates of growth. The District has historically "beaten the market" by floating natural gas and paying the monthly index settlement prices but continues to monitor that market for an attractive "lock-in" point.

The Illinois Municipal Retirement Fund (IMRF), along with almost every pension fund in the country, experienced miserable investment returns during 2008 that resulted in the District's actuarial funded ratio declining from 94% to 69% and its market funded ratio dropping from 102% to 44%. As a result, the District has seen its actuarially determined surplus of over $6 million on 12/31/01 become an unfunded liability of almost $7.2 million on 12/31/08. Furthermore, the District's has seen its employer contribution rate rise from 1% of payroll in 2001 to over 16% in 2010. It is expected that the effects of the 2008 financial crisis will impact the District's pension plan, funded status and employer contribution rate for many years to come.

Basic Financial Statements

NORTH SHORE SANITARY DISTRICT
STATEMENT OF NET ASSETS
APRIL 30, 2009

ASSETS

CURRENT ASSETS	
Cash	$ 1,372,746
Investments	38,455,594
	$ 39,828,340
Receivables	
Property taxes receivable	$ 12,397,026
Replacement taxes receivable	577,323
Accrued interest receivable	-
Great Lakes capital component fees	1,124,094
Accounts receivable	804,339
User fees receivable	
Billed and currently collectible, net of $41,822 allowance for bad debts	1,216,778
Unbilled (estimated)	2,130,548
Total receivables	$ 18,250,108
Inventories	2,147,805
Prepaid expenses	149,224
Total current assets	$ 60,375,477
RESTRICTED ASSETS	
Investments	$ 949,612
Total restricted assets	$ 949,612
PROPERTY PLANT AND EQUIPMENT	
Net of $244,347,000 accumulated depreciation	$ 189,128,430
NONCURRENT ACCOUNTS RECEIVABLE	$ 6,580,864
Total assets	$ 257,034,383

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

LIABILITIES

CURRENT LIABILITIES		
Accounts payable	$	2,789,953
Accrued expenses		
Accrued payroll	$	106,518
Accrued interest		44,715
Accrued sick and vacation pay/personal time		521,562
Total accrued expenses	$	672,795
Current portion - long-term debt	$	1,309,819
- landfill closure/postclosure costs		42,879
Deferred revenue - property taxes		6,315,857
Total current liabilities	$	11,131,303
NONCURRENT LIABILITIES		
Long-term debt	$	5,440,313
Less: current portion		(1,309,819)
	$	4,130,494
Accrued sick pay		106,989
Landfill closure/postclosure costs		139,601
Other post employment benefits payable		987
Total noncurrent liabilities	$	4,378,071
Total liabilities	$	15,509,374

NET ASSETS

Invested in capital assets, net of related debt	$	183,260,805
Restricted		949,612
Unrestricted		57,314,592
Total net assets	$	241,525,009

NORTH SHORE SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2009

OPERATING REVENUES	
General user charge	$ 9,515,739
Sewage treatment contracts	4,307,175
Sulfate fees	295,344
Laboratory analytical fees	162,883
General penalties	5,721
Sewer inspection fees	3,050
Miscellaneous	6,174
Total operating revenues	$ 14,296,086
OPERATING EXPENSES	
Salaries	$ 6,310,189
Employee benefits	3,084,619
Process chemicals	910,288
Repairs	1,124,082
Supplies	519,806
Vehicle expense	100,460
Miscellaneous safety improvements	7,220
Utilities	8,447,306
Contractual and professional services	3,375,113
Property and liability insurance	607,583
Consulting and engineering	143,752
Other	29,269
Subtotal	$ 24,659,687
Depreciation	12,361,476
Total operating expenses	$ 37,021,163
OPERATING (LOSS) forwarded	$(22,725,077)

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, 2009

OPERATING (LOSS) brought forward	$	(22,725,077)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	$	12,083,390
Replacement taxes		3,025,398
Interest income		625,244
Minergy settlement		1,520,000
Lafarge facilities use agreement		47,926
Electricity curtailment revenue		257,921
Interest expense		(149,512)
Miscellaneous		(27,253)
Gain (loss) on disposition of assets		160,143
Net nonoperating revenues	$	17,543,257
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	$	(5,181,820)
CAPITAL CONTRIBUTIONS		827,804
Change in net assets	$	(4,354,016)
NET ASSETS, BEGINNING		245,879,025
NET ASSETS, ENDING	$	241,525,009

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

NORTH SHORE SANITARY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 14,416,081
Cash paid to suppliers for goods and services	(19,322,254)
Cash paid to employees for services	(6,460,589)
Net cash provided from (used in) operating activities	$(11,366,762)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Real estate taxes received	$ 11,828,977
Personal property replacement taxes received	3,089,267
Other nonoperating revenues	1,776,604
Net cash provided from (used in) noncapital financing activities	$ 16,694,848
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	$ 1,323,843
Interest paid on debt	(160,013)
Acquisition of fixed assets	(7,684,752)
Proceeds from the sale of assets	554,554
Principal payments on debt	(1,277,677)
Net cash provided from (used in) capital and related financing activities	$ (7,244,045)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	$ 674,846
Investments sold (purchased) - net	8,046,974
Net cash provided from (used in) investing activities	$ 8,721,820
Net increase (decrease) in cash	$ 6,805,861
CASH BALANCE, BEGINNING	33,972,092
CASH BALANCE, ENDING	$ 40,777,953
CASH RECONCILIATION	
Cash	$ 1,372,747
Investments- Illinois Funds (current and restricted)	39,405,206
	$ 40,777,953

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, 2009

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

Net operating income (loss)	$(22,725,077)
Depreciation	12,361,476
Net (increase) decrease in receivables	119,995
Net (increase) decrease in inventory	38,610
Net (increase) decrease in prepaid expenses	114,712
Net increase (decrease) in payables	(1,276,478)
	$(11,366,762)

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

NORTH SHORE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2009

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 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 natural gas, chemicals, repair parts, general supplies, auto supplies and automotive fuel is recorded using the "moving average" cost method. The natural gas inventory is shown as a prepaid item.

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

Sewer connection and annexation fees and capital component fees 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 11, 2008.

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 $49,244,174 at April 30, 2009.

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	$ 39,405,206	$ 39,405,054
FDIC Insured	250,000	250,000
Collateralized with bank's agent		
In District's name	1,122,346	1,325,264
In bank's name	-	-
	$ 42,777,552	$ 40,980,318
Petty cash	400	
	$ 40,777,952	

Of this total, $39,828,340 is shown as a current asset and $949,612 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 by 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.

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 $39,405,206 in the Illinois Funds. The Illinois Funds Money Market Fund is a money market fund created in 1975 by the Illinois General Assembly. The monies invested by participants are pooled together and invested in U.S. Treasury bills and notes backed by full faith and credit of the U.S. Treasury. In addition, monies are invested in fully collateralized time deposits in Illinois financial institutions, in collateralized repurchase agreements, and in treasury mutual funds that invest in U.S. Treasury obligations and collateralized repurchase agreements. 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.

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, 2009 were from the 2008 levy dated December 1, 2008 and are summarized as follows:

Taxes receivable	$12,397,026
Less: deferred	6,315,857
Current revenue	$ 6,081,169

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 during the following February.

Calendar year 2009 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

In 2007, the District signed modifications to its Navy and Fort Sheridan sewerage service contracts requiring the Navy to reimburse the District for its share of previously completed capital improvement projects. With these modifications, a methodology was established for the Navy to pay its share of future capital improvement projects in a timely manner.

<u>Capital improvement projects completed before April 30, 2006</u>
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. 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 and was recorded as revenue for the year ended April 30, 2007. 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 for the year ended April 30, 2007. For the year ended April 30, 2008, $271,805 was recorded as capital component fees. For the year ended April 30, 2009, the difference between the payment schedule and the amortization of the present value, $242,311, was also recorded as capital component fees.

<u>Capital improvement projects completed subsequently</u>
For the years ended April 30, 2007, 2008 and 2009, revenues were recorded to recognize estimated reimbursements due from the Navy for its share of completed projects during the years then ended. Using an interest rate of 6%, the present values of this portion of the contract were $3,728,951, $45,872 and $51,146, respectively and were recorded as capital component fees.

<u>Accounts receivable</u>
At April 30, 2009, the District has a receivable balance of $7,586,973 from the Great Lakes Naval Training Center. Of this, $6,462,879 will not be received within one year and is recorded as a noncurrent receivable. See Note 16 for subsequent events relative to this 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, 2009 the

District has a receivable balance of $157,985. Of this, $117,985 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, 2008	Additions	Deletions	Balance April 30, 2009
COST				
Buildings	$ 180,181,667	$ 5,000	$ 5,740	$ 180,180,927
Sewers*	68,285,649	136,014		68,421,663
Equipment	119,881,602	2,421,172	1,307,747	120,995,027
Improvements	39,604,487	951,578		40,556,065
Vehicles*	1,310,776	413,375	36,132	1,688,019
Total depreciable	$ 409,264,181	$ 3,927,139	$ 1,349,619	$ 411,841,701
Land	$ 4,970,259		$ 82,139	$ 4,888,120
Land improvements	3,758,472			3,758,472
Construction in Progress	10,680,961	$ 6,233,315	3,927,139	12,987,137
Total nondepreciable	$ 19,409,692	$ 6,233,315	$ 4,009,278	$ 21,633,729
	$ 428,673,873	$10,160,454	$ 5,358,897	$ 433,475,430
ACCUMULATED DEPRECIATION				
Buildings	$ 91,192,484	$ 4,449,550	$ 4,581	$ 95,637,453
Sewers*	36,162,166	1,303,065		37,465,231
Equipment	76,653,020	5,470,993	997,793	81,126,220
Improvements	27,990,640	988,599		28,979,239
Vehicles*	1,025,720	149,269	36,132	1,138,857
	$233,024,030	$12,361,476	$ 1,038,506	$ 244,347,000

* Current year activity considers reclassification of $347,728 Vactor truck originally recorded as a sewer.

7. 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 $1,370,685 annually based on enrollment projections. 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, 2008 balance	$ 61,000
Claims incurred	940,488
Less: claims paid	889,488
April 30, 2009 balance	$ 112,000

8. Changes in long-term debt

The following is a summary of long-term debt transactions of the District for the year ended April 30, 2009:

Obligation payable at May 1, 2008	$ 6,717,990
Less: Payments made during fiscal year 2009	1,277,677
Obligations payable at April 30, 2009	$ 5,440,313

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

Annual requirements are as follows:

Fiscal Year Ending April 30	Principal	Interest	Total
2010	$ 1,309,819	$ 127,873	$ 1,437,692
2011	1,342,769	94,922	1,437,691
2012	1,376,548	61,143	1,437,691
2013	1,411,177	26,515	1,437,692
	$ 5,440,313	$ 310,453	$ 5,750,766

9. Accrued sick and vacation pay

The District accounts for unpaid sick and vacation pay (including personal time off) by accruing a liability for future sick and vacation benefits that meet the following conditions:

a) The obligation relating to employee's rights to receive compensation for future absences is attributable to employees' services already rendered.

b) The obligation relates to rights that vest or accumulate.

c) Payment of the compensation is probable.

d) The amount can be reasonably estimated.

Sick and vacation pay benefits due on April 30, 2009 totaled $628,551. Of this, $106,989 is considered not likely to be paid within one year and has been recorded as a noncurrent liability.

10. Sewage disposal agreement

The District provides sewage treatment at its Gurnee Sewage Treatment Plant to County customers legally connected to the County Northeast Central Sewerage system either before or within ten (10) years after the effective date of the agreement, or until June 11, 2013. Under the terms of the agreement the County shall pay the District the following fees for the cost of sewage treatment:

a) The flow component is billed based on actual flow at the District's lowest user charge rate for residential customers, less seven (7) percent.

b) The property component is established by multiplying the total tax rate of the District for the same tax year by a fraction, the numerator of which is the most current equalized assessed valuation of the County service area and the denominator of which is the sum of the equalized assessed valuations of the County's service area and that of the entire District.

c) The connection fee is determined by multiplying the District's capital recovery fee by 70.94%.

11. Defined Benefit Pension Plan

Plan description - The District's defined benefit pension plan provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. The plan is affiliated with the Illinois Municipal Retirement Fund (IMRF) which is an agent multiple employer pension plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on line at www.imrf.org.

Funding policy - As set by statute, plan members are required to contribute 4.50% of their annual covered salary. The statutes require the District to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2008 was 12.28% of annual covered payroll. The District also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual pension cost – For 2008, the District's annual pension cost of $791,639 for the plan was equal to its required and actual contributions.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
12/31/08	$ 791,639	100%	-0-
12/31/07	776,302	100%	-0-
12/31/06	442,591	100%	-0-

The required contribution for 2008 was determined as part of the December 31, 2006 actuarial evaluation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2006 included (a) 7.50% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability is being amortized on a level percentage of projected payrolls on a closed basis. The remaining amortization period at the December 31, 2006 valuation was 24 years.

Funded Status and Funding Progress - As of December 31, 2008, the most recent actuarial valuation date, the plan was 69.39% funded. The actuarial accrued liability for benefits was $23,431,732 and the actuarial value of assets was $16,259,535, resulting in an under funded actuarial accrued liability (UAAL) of $7,172,197. The covered payroll (annual payroll of active employees covered by the plan) was $6,446,575 and the ratio of the UAAL to the covered payroll was 111 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

12. Other Post Employment Benefits (OPEB)

Plan Description and Funding Policy -The District provides COBRA health benefits to all prior employees as required by federal law. The Agency also provides health benefits to all retirees as required by state statutes (IMRF). In both cases, the prior employee/retiree pays 100 percent of the premium. Implicit costs arise from these transactions.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit cost (expense) is calculated based on its annual required contribution (ARC) which is an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation:

Annual required contribution	$ 11,418
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	$ 11,418
Contributions made	10,431
Increase (decrease) in net OPEB obligation	$ 987
Net OPEB obligation, beginning	0
Net OPEB obligation, ending	$ 987

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended April 30, 2009 is as follows:

	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
April 30, 2009	$ 11,418	91.4%	$ 987

Since this is the first year of implementation, the District does not have OPEB information for the two preceding years.

Funding progress at April 30, 2009

Actuarial value of assets	0
Actuarial accrued liability (AAL) - entry age	$ 160,958
Unfunded AAL (UAAL)	160,958
Funded ratio	0.00%
Covered payroll	$6,310,190
UAAL as percentage of covered payroll	2.55%

Funding Policy and Actuarial Assumptions

Contribution rates:	
District	0.18%
Plan members	0.00%
Actuarial valuation date	April 30, 2009
Actuarial cost method	Entry age
Amortization period	Level percentage of pay, open period
Remaining amortization period	30 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases	5.00%
Healthcare inflation rate	8.00% initial 6.00% ultimate
Mortality, turnover, disability retirement ages	Same rates utilized for IMRF
Percentage of active employees assumed to elect benefit	25%

Employer provided benefit	Implicit: 20% of premium to age 65 (50% of $435/mo. and 50% of $869 mo)

* Includes inflation at 3%

13. Net assets committed and restricted

a) Committed

The following summary details transactions as directed by the Board of Trustees in reserved net asset accounts for the year ended April 30, 2009:

	Reserved for		
	Additions	Replacements	Expansion
May 1, 2008 balance	$ 5,726,108	$ 168,128	$ 12,994,250
Additions:			
Capital component fees			
Great Lakes	750,000		
Lake County Public Works service contract – Property component fee	1,276,452		
Property taxes – Capital additions component*	6,910,868		
Connection, annexation and fair capital fees			532,983
User charge – Capital component**		3,991,572	
Interest on reserved monies**	97,829	6,000	190,104
Subtotal	$ 14,761,257	$ 4,165,700	$ 13,717,337
Subtractions:			
Capital outlay	$ 2,985,947	$ 3,232,168	$ 15,200
April 30, 2009 balance	$ 11,775,310	$ 933,532	$ 13,702,137

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

** The Board has designated that sufficient user fee monies be transferred to the reserve for replacements that, when added to interest on reserved monies, total $3,997,572. Remaining user fees are used for operations.

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

Additions	$ 275,751
Replacements	106,846
	$ 382,597

b) Restricted

Property tax receipts accumulated to make debt retirement payments on the 1991 bond issue are considered to be assets restricted by enabling legislation. The May 1, 2008 cash balance of $903,936 was increased by property tax collections of $1,483,367 and decreased by bond and interest payments of $1,437,691 resulting in an ending balance of $949,612. Debt retirement payments are made from these funds first and from unrestricted funds only when restricted funds are not available.

14. Contractual commitments

a) At April 30, 2009, the District had the following major contractual obligation outstanding:

	Project	Contract Amount	Amount Completed April 30, 2009	Amount Remaining
Camosy, Inc.	Sludge screen	$ 5,795,000	$ 73,458	$ 5,721,542
		$ 5,795,000	$ 73,458	$ 5,721,542

Commitments in excess of reserved amounts will be funded from unreserved amounts and future revenues.

b) On June 11, 2003, the District signed an amendment to a real estate contract wherein it agreed to sell part of its landfill property to the City of Zion. Under the agreement, the City agrees to incrementally buy 411 acres from the District at a cost of $46,683 per acre, or a total of $19,186,713. These incremental purchases should, basically occur on or before May 1, 2023. As part of the agreement, the District has agreed to make sanitary sewer service available to the proposed development. Since that time the two parties have amended the agreement to allow the City to make improvements on a portion of the land. Upon sale, the District would receive the same amount of money but there would be fewer acres sold at a higher price per acre. On May 14, 2008, the Board approved an ordinance authorizing the sale of approximately 8 acres to the City of Zion. This sale closed on July 23, 2008 and the District received $550,310 representing the purchase price of $554,253 (7.924 acres at $69,946.21 per acre) less closing costs.

c) Effective April 5, 2005, Lafarge North America, Inc. has agreed to pay the District for the use of an excavated cell at the landfill property. The District received a facility fee of $250,000 per year for the use of the facility through completion of structural fill activities in the cell on June 30, 2008. Beginning July 1, 2008, the facility fee was revised to $50,000 per year to reflect LaFarge's reduced use of property at the site. This change was documented in Amendment Number 1 to the agreement. This agreement is set to expire January, 2015, but can be terminated earlier under certain specific conditions.

d) The District's agreement with Minergy to operate the sludge recycling facility on a cost reimbursement basis ended March 31, 2009. As part of the service termination agreement, the District received a settlement of $1,520,000 which is reported as nonoperating revenue. The District has now contracted with Donahue & Associates for the operations and mechanical maintenance of the facility for a period not to exceed 24 months.

15. Contingencies

a) The District is continuing its studies of its sewers to determine the extent of repairs, which may be needed. The District is unable to determine the magnitude of repair costs which may be disclosed from these studies.

b) A consent order was issued in 2001 related to the unpermitted discharge of treated effluent to Lake Michigan during the investigation and repair of the F3 forcemain rupture. Pursuant to this order, the District implemented a plan to mitigate future ruptures. This plan includes the testing of the entire forcemain every five years to determine the need for repair or replacement of any weakened sections. Recent testing of this forcemain has identified 31 distressed pipe sections that the District will repair at an estimated cost of $1,620,000. This liability has not been recorded on the financial statements of the District.

c) State and federal laws require the District to perform certain maintenance and monitoring functions at the Zion Township landfill site for thirty years after closure. The District reported a portion of estimated closure and postclosure costs as operating expenses in each period that the landfill was used until it closed the landfill in April, 2005. Since that time, payments totaling $722,262 have been charged against the accrued liability leaving $182,480 as the landfill closure and postclosure care liability at April 30, 2009. This represents the balance of landfill closure and post closure costs remaining to be paid and is based on current estimates. Actual cost may be higher due to inflation, changes in technology and/or changes in regulations and will be funded from future revenues.

d) In August, 2009, the Defense Contract Audit Agency performed an audit of project 01A15 Sludge Drying/Melting facility costs on behalf of the Navy. The results of this audit are not yet available and nothing has been recorded on the financial statements for any estimated adjustments noted.

16. Subsequent events

a) In April, 2009, the District was notified that the IMRF Board of Trustees had adopted an optional phase-in plan for 2010 employer contribution rates. This option was provided in consideration of adverse investment returns experienced by IMRF in 2008 and the resultant hike in the employer contribution rate. The annual required contribution (ARC) for 2010 was 16.80% but the District could elect an optional phase-in rate of 12.38% that would require the recording of an additional pension obligation. In August, the District elected to pay the annual required contribution rate of 16.80%.

b) On August 18, 2009, an amendment to the Navy sewerage service contract was signed which calls for a change in the payment schedule for capital component fees (see note 5) for years 4 and 5 of the agreement. Instead of monthly payments of $83,330 for the period from October 1, 2009 through September 1, 2011, there will be a current lump sum payment of $1,999,920. No adjustment to the noncurrent receivable amount was recorded for this contract modification pending federal budgeting approval.

c) In July, 2009, the District was notified that it was eligible for a claim resulting from hydrogen peroxide antitrust litigation. The District can not accurately estimate its share of settlement proceeds, so nothing has been recorded in the financial statements as a receivable.

Required Supplementary Information - IMRF