

**Lake County Public Works Department  
Northwest Wholesale Sewer System**

**Statements of Income and Expenses and  
Independent Accountants' Report on  
Applying Agreed-Upon Procedures**

**November 30, 2010 and 2009**

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# MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Public Works Committee  
Lake County Public Works Department  
Northwest Wholesale Sewer System  
Libertyville, Illinois

We have performed the procedures contained in Attachment I to this report, which were agreed to by the management of Lake County Public Works Department, solely to assist you in evaluating the validity of the accompanying statements of income and expenses for the year ended November 30, 2010 for the Northwest Wholesale Sewer System. The Lake County Public Works Department's management is responsible for the statement of income and expenses. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose. The prior year comparative information was derived from the Northwest Wholesale Sewer System's November 30, 2009 agreed-upon procedures report. The November 30, 2009 agreed-upon procedures report was prepared by other accountants and no findings were noted.

The attached statements of income and expenses were not prepared in accordance with accounting principles generally accepted in the United States of America and only represent revenues and expenses associated with the Northwest Wholesale Sewer System's operations. They do not include all revenue and expense categories as shown in the Department's fiscal year 2010 audited financial statements. This statement also includes cash flow and replacement items that are not reported as expenses in this statement.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying statement of income and expenses. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

(Continued)

To the Public Works Committee  
Lake County Public Works Department  
Northwest Wholesale Sewer System

(Continued)

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Certain attachments in this report are in the form of a forecast and were created using information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecasted information. We have not audited the forecasted information and, accordingly, do not express an opinion or any other form of assurance on the accompanying attachments. Furthermore, there will usually be differences between the forecasted and actual results, since some events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the information and use of the management of the Lake County Public Works Department and its regional customers, and is not intended to be and should not be used by anyone other than these specified parties.

MILLER, COOPER & CO., LTD.

*Miller, Cooper & Co., Ltd.*

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Certified Public Accountants

Deerfield, Illinois  
February 23, 2012

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
Years ended November 30, 2010 and 2009

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Procedures and Results

1. Miller, Cooper & Co., Ltd. assisted management with creating the statement of income and expenses on the accrual basis to include the following classification of financial items for the Northwest Wholesale Sewer System for the year ended November 30, 2010. The 2009 statement of income and expenses was obtained from a report issued by other accountants.
  - a. Operating revenues
  - b. Operating expenses
  - c. Non-operating revenues and expenses
  - d. Capital contributions, replacement and cash outflows and capital improvements

Refer to Attachment II to this report for further details.

2. Reviewed the methodology used by the Lake County Public Works Department (the Department) for reporting revenues and expenses directly attributable to the Northwest Wholesale Sewer System. Based on this review, it was determined that the methods and assumptions used by the Department for tracking and reporting revenues and expenses were reasonable and consistent in nature.

No exceptions were noted during this review.

3. Assisted management in developing and implementing a methodology for tracking and reporting revenues and expenses indirectly attributable to the Northwest Wholesale Sewer System for inclusion in the statements of income and expenses.

Refer to Attachment II to this report.

4. Verified that amounts used to complete procedure 1 were allocated and derived from the audited information of the Lake County Public Works Department Waterworks and Sewerage Systems Fund as a whole for the year ended November 30, 2010.

No exceptions were noted.

**STATEMENTS OF INCOME AND EXPENSES**

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
 STATEMENTS OF INCOME AND EXPENSES  
Years Ended November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Wholesale sewer charges	\$ 5,894,357	\$ 5,660,566
OPERATING EXPENSES		
Personnel services		
Salaries and wages	409,725	404,581
Pension - IMRF and social security	70,824	66,904
Total personnel services	<u>480,549</u>	<u>471,485</u>
Commodities		
Office supplies and maintenance	5,419	5,215
Housekeeping supplies	9,149	10,575
Gasoline	13,373	11,834
Buildings and grounds supplies	8,534	2,895
Operational supplies	30,909	25,935
Chemical supplies	676	70
Uniforms	2,657	3,010
Medical supplies	740	584
Non capitalized equipment and improvements	27,113	-
Miscellaneous	978	180
Total commodities	<u>99,548</u>	<u>60,298</u>
Contractual		
Insurance		
Employees' life, health and dental	112,751	100,150
Unemployment and worker's compensation	57,612	54,854
Miscellaneous benefits	4,650	5,009
Gas (utility)	15,056	20,329
Electricity	81,456	85,057
Telephone and telemetry	17,229	14,345
Wholesale sewerage treatment	3,769,683	4,003,824
Vehicle maintenance	11,925	12,550
Buildings and equipment maintenance	43,594	28,951
Equipment rental	822	968
Disposal service	2,695	2,854
Miscellaneous	269,609	188,105
Total contractual	<u>4,387,082</u>	<u>4,516,996</u>
Total operating expenses	<u>4,967,179</u>	<u>5,048,779</u>

(Continued)

See independent accountants' report on applying agreed-upon procedures.

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
 STATEMENTS OF INCOME AND EXPENSES (Continued)  
Years Ended November 30, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Operating income - excluding depreciation	\$ <u>927,178</u>	\$ <u>611,787</u>
Income before contributions, transfers, and other items	927,178	611,787
<b>ADJUSTMENTS</b>		
Capital contributions - connection fees	80,578	68,810
Forecasted annual improvement costs	(685,466) *	(685,466)
Capital expenditures	<u>(74,397) **</u>	<u>(110,720)</u>
<b>INCREASE (DECREASE) TO RESERVE FUND</b>	<u><u>\$ 247,893</u></u>	<u><u>\$ (115,589)</u></u>

\* Refer to Attachment IV for details related to this amount

\*\* Refer to Attachment V for details related to this amount

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See independent accountants' report on applying agreed-upon procedures.



**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
Years Ended November 30, 2010 and 2009

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

1. Nature of Statement of Income and Expenses

The statements of income and expenses (statements) are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. The revenues and expenses presented here are allocated to the Northwest Wholesale Sewer System from the Department's fiscal 2010 and 2009 audited financial statements dated May 20, 2011 and May 21, 2010, respectively.

2. Reconciling Items

The attached statements were not prepared in accordance with accounting principles generally accepted in the United States of America, and only represent revenues and expenses associated with the Northwest Wholesale Sewer System's operations and do not include all revenue and expense categories as shown in the Department's fiscal year 2010 and 2009 audited financial statements. Items not presented in attached statements include:

- > Depreciation expense
- > Non-cash capital contributions
- > Proceeds from sale of capital assets

The above items were not allocated to the Northwest Wholesale Sewer System due to the procedures agreed upon by the Department, which required that the financial statements presented here only report similar revenues and expenses, as used in designing the Department's current rate structure during the Test Year 2006 Water and Sewer Rate Studies.

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
Years Ended November 30, 2010 and 2009

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS  
(Continued)

3. Items Specific to the Northwest Wholesale Sewer System

*Annual Infrastructure Refurbishment/Replacement Costs*

As part of this agreed-upon procedure engagement, the Department determined the costs associated with relining and refurbishing the Northwest Wholesale Sewer System's interceptor facilities for inclusion in the statement. This procedure was necessary to reflect the amounts required to be recovered through user fees in future years to ensure that the Department will have sufficient funds on hand to refurbish the Northwest Wholesale Sewer System's infrastructure over the next 20 years. These costs would typically be shown as depreciation expense in financial statements prepared using accounting principles generally accepted in the United States of America.

The Department determined that the amortization period of 20 years for the relining and refurbishing costs is a reasonable period due to the fact that the initial investment for the original infrastructure is not being recovered through the current user charges. As noted in the Test Year 2006 Water and Sewer Rate Study, the overall goal of the Department is to develop a rate structure based on the costs of serving the individually unique customer groups within specified service territories. Because the initial investment for the original infrastructure has been underfunded in the user charges to date, the Department has determined that it is equitable to hasten the recovery of the relining and refurbishing costs to ensure that a reasonable portion is recovered from the Department's current customers served by the Northwest Wholesale Sewer System.

4. Capital Expenditures

As part of this agreed-upon procedures engagement, the Department determined both the direct and indirect expenditures associated with expanding and replacing the Northwest Wholesale Sewer System's capital asset items for inclusion in the statements. This procedure was necessary to identify additional capital expenditures incurred on an annual basis for which the current user rates are designed to recover. Refer to Attachments V to this report for further details.

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
 INFRASTRUCTURE REFURBISHMENT AND REPLACEMENT SCHEDULE

Description	Units	Price Per Unit	Historical Value	Replacement Value	Relining and Refurbishment Cost Per Unit	Relining and Refurbishment Cost for 75 Year Service Life
60" Sanitary Sewer	8,797	\$ 300	\$ 2,639,100	\$ 8,709,030	\$ 240	\$ 2,111,280
48" Sanitary Sewer	16,290	125	2,036,250	6,719,625	195	3,176,550
42" Sanitary Sewer	11,391	110	1,253,010	4,134,933	170	1,936,470
36" Sanitary Sewer	564	100	56,400	186,120	146	82,344
33" Sanitary Sewer	140	95	13,300	43,890	134	18,760
30" Sanitary Sewer	381	90	34,290	113,157	120	45,720
27" Sanitary Sewer	2,504	60	150,240	495,792	110	275,440
24" Sanitary Sewer	354	55	19,470	64,251	95	33,630
21" Sanitary Sewer	756	50	37,800	124,740	80	60,480
30" FM	5,445	90	490,050	1,617,165	120	653,400
24" FM	2,903	55	159,665	526,895	95	275,785
20" FM	3,802	55	209,110	690,063	80	304,160
MH	127	1,300	165,100	544,830	2,200	279,400
Petite PS	1	920,000	920,000	3,036,000	920,000	920,000
Rollins PS	1	700,000	700,000	2,310,000	700,000	700,000
E Main PS	1	1,030,000	1,030,000	3,399,000	1,030,000	1,030,000
Subtotal			<u>9,913,785</u>	<u>32,715,491</u>		<u>11,903,419</u>
Contingencies			486,204	1,604,473		595,170
Engineering			801,900	2,646,270		833,239
Secondary Power			<u>175,000</u>	<u>377,500</u>		<u>377,500</u>
Total			<u>\$ 11,376,889</u>	<u>\$ 37,343,734</u>		<u>\$ 13,709,328</u>
Total cost to recover over 20 years			<u>\$ 13,709,328</u>			
Forecasted annual improvement costs			<u>\$ 685,466</u>			

See independent accountants' report on applying agreed-upon procedures.

**Lake County Public Works Department**  
**Northwest Wholesale Sewer System**  
 CAPITAL EXPENDITURES

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Project Description	2010	2009
Administration building expansion	\$ 39,588	\$ 26,533
PW- NW Interceptor improvement	14,871	49,668
RLSD Lagoon Improvement	-	7,003
Construction and maintenance equipment	5,115	6,390
Laboratory equipment	2,279	5,542
Motor vehicles	12,544	15,584
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Total Northwest capital expenditures	\$ <u>74,397</u>	\$ <u>110,720</u>

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See independent accountants' report on applying agreed-upon procedures.