

**Lake County Public Works Department
Northeast Central 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
Northeast Central 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 Northeast Central 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 Northeast Central 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 Northeast Central 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
Northeast Central Wholesale Sewer System

(Continued)

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.

Certified Public Accountants

Deerfield, Illinois
February 23, 2012

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

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 Northeast Central 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 Northeast Central 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 Northeast Central 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
Northeast Central Wholesale Sewer System
 STATEMENTS OF INCOME AND EXPENSES
Years ended November 30, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Wholesale sewer charges	\$ 3,228,005	\$ 2,872,053
OPERATING EXPENSES		
Personnel services		
Salaries and wages	175,987	141,596
Pension - IMRF and social security	29,797	24,357
Total personnel services	205,784	165,953
Commodities		
Office supplies and maintenance	2,380	1,968
Housekeeping supplies	703	716
Gasoline	7,177	5,430
Buildings and grounds supplies	107	973
Operational supplies	3,208	2,125
Uniforms	1,355	1,275
Medical supplies	256	38
Non capitalized equipment and improvements	14,985	-
Miscellaneous	137	70
Total commodities	30,308	12,595
Contractual		
Insurance		
Employees' life, health and dental	50,821	37,793
Unemployment and worker's compensation	33,607	25,317
Miscellaneous benefits	2,573	2,281
Gas (utility)	1,910	2,188
Electricity	38,183	41,719
Telephone and telemetry	8,387	6,480
Wholesale sewage treatment	2,398,879	2,348,299
Vehicle maintenance	6,830	5,670
Buildings and equipment maintenance	6,997	4,463
Equipment rental	1,009	447
Disposal service	1,138	956
Miscellaneous	79,583	57,925
Total contractual	2,629,917	2,533,538
Total operating expenses	2,866,009	2,712,086

(Continued)

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

Lake County Public Works Department
Northeast Central Wholesale Sewer System
 STATEMENTS OF INCOME AND EXPENSES (Continued)
Years ended November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating income - excluding depreciation	\$ <u>361,996</u>	\$ <u>159,967</u>
Income before contributions, transfers, and other items	361,996	159,967
ADJUSTMENTS		
Capital contributions - connection fees	115,183	56,620
Forecasted annual improvement costs	(582,500) *	(462,858)
Capital expenditures	<u>(33,018) **</u>	<u>(214,730)</u>
DECREASE TO RESERVE FUND	<u>\$ (138,339)</u>	<u>\$ (461,001)</u>

* Refer to Attachment IV for details related to this amount

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

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

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

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 Northeast Central 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 Northeast Central 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 Northeast Central 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.

3. Items Specific to the Northeast Central 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 Northeast Central 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 Northeast Central 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.

**Lake County Public Works Department
Northeast Central Wholesale Sewer System**

Years ended November 30, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

(Continued)

3. Items Specific to the Northeast Central Wholesale Sewer System (Continued)

Annual Infrastructure Refurbishment/Replacement Costs (continued)

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 Northeast Central 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 Northeast Central 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 Attachment V of this report for further details.

Lake County Public Works Department
Northeast Central Wholesale Sewer System
 CAPITAL IMPROVEMENTS PLAN

Project Description	Total Cost	Percent Wholesale	Percent Retail	Percent Replacement	Percent Expansion
Northeast Central Interceptor Relief Sewer Installation	\$ 2,000,000	100%	0%	50%	50%
Northeast Central Pump Station Improvements	1,400,000	100%	0%	50%	50%
Northeast Central Sewer Force Main	1,300,000	100%	0%	50%	50%
Northeast Central Interceptor Improvement	<u>9,300,000</u>	100%	0%	100%	0%
Total project costs	<u>\$ 14,000,000</u>				
Total project costs related to wholesale customers to be recovered through wholesale rates	<u>\$ 11,650,000</u>				
Annual Improvement Cost					
Forecasted annual improvement costs			\$ 582,500		

Note 1 - Based on a 20 year repayment term.

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

Lake County Public Works Department
Northeast Central Wholesale Sewer System
 CAPITAL EXPENDITURES

Project Description	2010	2009
Administration building expansion	\$ 21,959	\$ 13,019
NEC Pump Station second sewer force main installation	-	180,262
NEC Interceptor relief sewer	-	7,948
Motor vehicles	6,958	7,647
Laboratory equipment	1,264	2,719
Construction and maintenance equipment	<u>2,837</u>	<u>3,135</u>
Total Northeast Central capital expenditures	<u>\$ 33,018</u>	<u>\$ 214,730</u>

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