

**LAKE COUNTY PUBLIC WORKS
DEPARTMENT WATERWORKS
AND SEWERAGE SYSTEMS FUND**

An Enterprise Fund of Lake County, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended November 30, 2011 and 2010

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

An Enterprise Fund of Lake County, Illinois

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INDEPENDENT AUDITORS' REPORT

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund
Libertyville, Illinois

We have audited the statements of net assets of Lake County Public Works Department, Waterworks and Sewerage Systems Fund (department), an enterprise fund of Lake County, Illinois, as of November 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Lake County Public Works Department, Waterworks and Sewerage Systems Fund, an enterprise fund of Lake County, Illinois, and are not intended to present fairly the financial position of Lake County, Illinois, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake County Public Works Department, Waterworks and Sewerage Systems Fund as of November 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Public Works Committee
Lake County Public Works Department

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tilly Vercher Krause, LLP

Madison, Wisconsin
May 14, 2012

LAKE COUNTY PUBLIC WORKS DEPARTMENT WATERWORKS AND SEWERAGE SYSTEMS FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Years Ended November 30, 2011 and 2010 (UNAUDITED)

The Management's Discussion and Analysis (MD&A) provides users of the Lake County Public Works Department's (department) financial statements an analytical overview of the department's financial position for the fiscal years ended November 30, 2011 and 2010. The users are encouraged to consider the information presented here in conjunction with additional information furnished in the Lake County Public Works Department's financial statements.

FINANCIAL HIGHLIGHTS

- > The department operations provided funds sufficient to meet the required reserve transfers for fiscal year 2011 and also allowed an additional transfer of \$3.1 million to the Depreciation, Extension and Improvement Account. Total funds transferred in accordance with the bond ordinance during fiscal year 2011 were \$8.4 million.
 - > In 2011 the department invested \$10.1 million in property, plant and equipment. The additions were primarily for continuing expansions and improvements of wastewater treatment plants, replacement of water mains, rehabilitation of sanitary sewer lines and improvement of lift stations.
 - > The department's operating revenues decreased by \$0.9 million or 2.3% to \$37.5 million for fiscal year 2011, compared to \$38.4 for fiscal year 2010. At the same time the operating expenses excluding depreciation expense, increased by \$1.0 million dollars or 3.7%. The revenues generated from new permits were only \$0.9 million due to lingering economic recovery in fiscal year 2011.
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OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the department's financial performance for the fiscal years ended November 30, 2011 and 2010.

The Public Works Department is considered an enterprise fund of Lake County, Illinois that provides water and sewerage services to various communities within the county. This business-type activity is intended to recover all or a significant portion of its operating cost and required contribution to reserve accounts through user fees and charges. The Public Works and Transportation Committee of Lake County establishes rates and service rules managed by the Public Works Department. Accounting records are maintained in accordance with the Governmental Accounting Standards.

The Statements of Net Assets includes all of the department's assets and liabilities and provides information about the nature and the amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the department. In the following Table 1, this statement has been condensed for analysis purposes. Please review the financial statements section in order to review details of this statement.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

**Table 1
Condensed Statement of Net Assets**

	2011	2010	2009	Amount Change	% Change
Current and Other Assets	\$ 104,597,840	\$ 107,872,004	\$ 87,776,781	\$ (3,274,164)	-3.04%
Capital Assets	215,324,130	211,588,438	199,666,891	3,735,692	1.77%
Total Assets	319,921,970	319,460,442	287,443,672	461,528	0.14%
Long-term Debt Outstanding	64,339,109	67,269,471	50,018,849	(2,930,362)	-4.36%
Other Liabilities	7,555,255	7,680,200	6,161,783	(124,945)	-1.63%
Total Liabilities	71,894,364	74,949,671	56,180,632	(3,055,307)	-4.08%
Invested in Capital Assets, Net of Related Debt	180,513,597	181,722,143	174,174,863	(1,208,546)	-0.67%
- Restricted Net Assets	45,623,377	42,538,776	36,476,734	3,084,601	7.25%
- Unrestricted	21,890,632	20,249,852	20,611,443	1,640,780	8.10%
Total Net Assets	\$ 248,027,606	\$ 244,510,771	\$ 231,263,040	\$ 3,516,835	1.44%

The department's total net assets are \$248,027,606 as of November 30, 2011, and represent the amount of assets exceeding liabilities. The largest portion of the net assets total, \$180,513,597 is made up of capital assets, net of related debt. This represents the cost of the department's capital assets used to provide services to the customers net of the debt related to these assets. These assets include land, buildings, equipment and water and sewerage systems and they are not available for the department's future solvency needs. Restricted net assets total \$45,623,377 and represent resources that are subject to bond ordinance covenants as to how they may be spent. Included in this total are net assets that are restricted for the future payment of debt and construction projects. Unrestricted net assets of \$21,890,632 represent the remaining balance that may be used to pay for the department's day-to-day operations.

Net assets invested in capital assets, net of related debt, decreased by \$1.2 million in 2011. Major factors contributing to this change were the following:

In 2011 the department has invested \$10.1 million in property, plant and equipment, primarily for continuing expansions of treatment plants, replacement of water mains, and rehabilitation of sanitary sewer lines and improvement of lift stations. This investment was a decrease from the previous year of \$2.0 million. The department anticipates that the same level or increased level of capital spending will be continuing over the next several years as management is committed to the fiscal responsibility of managing the department's capital needs and to assure preservation of the long-term viability of the existing capital assets. The depreciation expense increased by \$280,585 or 4.41%. This trend is expected to continue in the future due to the department's continuing efforts to improve the sewer systems and infrastructure.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

During the current year, the department's long-term capital related debt decreased by \$2.9 million to \$64.3 million compared to \$67.2 million for the prior year. This is the result of paying off a portion of the existing debt.

The increase in restricted net assets of \$3.1 million resulted primarily from the following:

- > Net assets restricted for Depreciation, Extension and Improvement (a restricted fund for Extension and Improvement of Water and Sewerage Systems) increased by \$3.1 million in 2011 as a combined result of fund transfers and receipt of CDBG grant totaling \$4.0 million combined, and offset by expenditures of \$0.9 million. These assets include \$6.0 million of the remaining bond proceeds received from 2010A First Lien Revenue Bonds set aside for the construction of water and sewer systems and facilities.

Unrestricted net assets slightly increased by \$1.6 million or 8.1%. The increase occurred in the unrestricted net assets during fiscal year was attributable to the operating income that was generated in fiscal year 2011.

Table 2 summarizes the Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents information pertaining to the department's financial performance during fiscal year 2011 and how this affects the department's net assets. In addition, it helps the user to predict the future cash flows and the financial health of the department.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

**Table 2
Condensed Statement of Revenues, Expenses,
and Changes in Net Assets**

	2011	2010	2009	Amount Change	% Change
Operating Revenues:					
Water and sewer charges	\$ 37,265,684	\$ 38,097,557	\$ 36,011,088	\$ (831,873)	-2.18%
Miscellaneous	292,037	354,948	214,956	(62,911)	-17.72%
Total Operating Revenues	37,557,721	38,452,505	36,226,044	(894,784)	-2.33%
Operating Expenses:					
Personnel services	7,093,223	7,112,482	7,361,934	(19,259)	-0.27%
Commodities	2,301,426	2,146,835	1,754,809	154,591	7.20%
Contractual	19,370,083	18,474,063	17,716,610	896,020	4.85%
Total Expenses	28,764,732	27,733,380	26,833,353	1,031,352	3.72%
Operating income before depreciation	8,792,989	10,719,125	9,392,691	(1,926,136)	-17.97%
Depreciation expense	6,637,264	6,356,679	6,284,661	280,585	4.41%
Operating income	2,155,725	4,362,446	3,108,030	(2,206,721)	-50.58%
Non-operating income (expense):					
Property tax revenue	859,567	876,326	885,701	(16,759)	-1.91%
Interest earned	1,307,352	1,620,011	2,374,615	(312,659)	-19.30%
Miscellaneous	1,212,056	50,915	(40,482)	1,161,141	2280.55%
Interest expense	(3,213,132)	(2,467,113)	(2,454,776)	(746,019)	30.24%
Income before contributions	2,321,568	4,442,585	3,873,088	(2,121,017)	-47.74%
Capital contributions:					
Connection fees	920,267	3,136,304	2,397,228	(2,216,037)	-70.66%
Developer contributions	275,000	5,668,842	2,628,402	(5,393,842)	-95.15%
Change in net assets	3,516,835	13,247,731	8,898,718	(9,730,896)	-73.45%
Beginning Net Assets	244,510,771	231,263,040	222,364,322	13,247,731	5.73%
Total Net Assets - Ending	\$ 248,027,606	\$ 244,510,771	\$ 231,263,040	\$ 3,516,835	1.44%

LAKE COUNTY PUBLIC WORKS DEPARTMENT WATERWORKS AND SEWERAGE SYSTEMS FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

Operating revenues totaled \$37,557,721 in fiscal year 2011, down \$0.9 million from the prior year. The 2.3% decrease in revenue is mainly due to decrease in the wholesale sewage revenue in the Southeast service areas, which is due to the revised terms of the summer sewer credit with the Village of Buffalo Grove and the change from flat rate to metered rate implemented by the village in 2011. Revenues from Connection Fees totaled \$920,267, a decrease from the prior year of \$3,136,304. This significant decrease was mainly due to lack of the residential and the commercial developments in fiscal year 2011. In addition, interest earnings on investments continued to decrease by \$312,659 or 23.9% in the current year from previous year due to declining interest rates.

Total operating expenses before depreciation during fiscal year 2011 were \$28,764,732. Even though the personnel services costs remained flat from the prior year, the total operating expenses represent an increase of \$1.3 million or 3.8% from the fiscal year 2010. Factors contributing to this change are the following.

- > Commodities costs, which include non-capitalized improvements, small equipment and furniture costs, increased by \$154,500 over results reported for fiscal year 2010. This change resulted from increased spending of \$168,000 on mechanical and operational supplies; and \$44,000 on fuel costs over the prior year.
- > The Department's contractual costs, which include the wholesale purchase of water and sewage treatment services, totaled \$19,370,083 and represent an increase of \$896,000 or 4.8% from the prior year. This change resulted largely from increases in purchases of water and sewage treatment services of \$529,000 that were offset by increases in water and sewage revenues; annual lease payment of \$62,000 to a new lab facility and an additional \$100,000 of legal services to represent the department in various legal matters and \$140,000 of consulting services for a proposed Northern Lake County water service expansion, which was funded through the Northern Lake County Lake Michigan Water Planning Group members' contributions; and the maintenance of various equipments.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

**Table 3
Capital Assets**

	2011	2010	2009	Amount Change	% Change
Land	\$ 2,577,013	\$ 2,577,013	\$ 2,576,151	\$ -	0.00%
Buildings and Improvements	72,400,974	72,138,881	71,471,866	\$ 262,093	0.36%
Improvements other than buildings					
Water facility					
Transmission and distribution mains	57,878,007	57,878,007	55,758,089	-	0.00%
Elevated water storage tanks	9,754,696	9,754,696	9,811,192	-	0.00%
Land improvements	2,118,368	1,720,385	1,720,385	397,983	23.13%
Wells	6,979,922	6,979,922	6,979,921	-	0.00%
Total water facility	76,730,993	76,333,010	74,269,587	397,983	0.52%
Sewer facility					
Trunk and lateral sewers	66,207,284	63,932,831	58,513,270	2,274,453	3.56%
Lift station	13,370,163	13,370,163	12,930,163	-	0.00%
Retention lagoon	499,890	499,890	499,890	-	0.00%
Treatment equipment	31,471,030	31,471,030	31,469,069	-	0.00%
Interceptor sewers	39,378,462	39,378,462	39,378,462	-	0.00%
Total sewer facility	150,926,829	148,652,376	142,790,854	2,274,453	1.53%
Total improvements other than building	227,657,822	224,985,386	217,060,441	2,672,436	1.19%
Machinery and equipment	9,562,563	9,332,435	9,516,201	230,128	2.47%
Construction in progress	20,643,118	13,638,252	4,264,031	7,004,866	51.36%
Total Capital Assets	332,841,490	322,671,967	304,888,690	10,169,523	3.15%
Less: Accumulated depreciation	(117,517,360)	(111,083,529)	(105,221,799)	\$ (6,433,831)	5.79%
Net Capital Assets	\$ 215,324,130	\$ 211,588,438	\$ 199,666,891	\$ 3,735,692	1.77%

In 2011 the net capital assets were \$ 215 million. This amount represents a net increase of \$3.7 million or 1.7%, over prior year. The major factors contributed to this increase are the expansion and improvement of Mill Creek and Des Plaines water reclamation facilities, the replacement and the installation of the water mains and the sewer lines and the improvement of lift stations.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended November 30, 2011 and 2010
(UNAUDITED)

ECONOMIC FACTORS

The department's Ten Year Capital Improvements Budget anticipates spending a significant amount of money on plant improvements, interceptor improvements and replacement of infrastructure to meet EPA's guidelines and mandates for potable water and wastewater while increasing capacity of its facilities to be prepared for future customers' demand. The department has plans to fund these projects with a combination of various funding sources, including use of reserved funds, user fees and by issuing new debt. On November 13, 2007 the county board established new service rates to provide adequate financial resources to fund these projects successfully.

On December 1, 2009, the department approved and established new sewer rates which were applicable to all rate classes. Currently, the department is conducting a rate study to determine whether the water and sewer rates are sufficient to support the O&M and the replacement costs.

LONG-TERM DEBT

As of November 30, 2011, the department has a total revenue bond debt of \$64,339,109 including \$17,170,000 of crossover refunding bonds. In 2011 the department has issued no new debt and at the same time the department has reduced the outstanding principal by paying out a portion of \$3.8 million.

A table of separate bond issues is included in the notes to the financial statements.

CONTACTING DEPARTMENT FINANCIAL MANAGEMENT

This financial report is designed to provide our customers with a general overview of the department's finances. If you have questions about this report, or need additional information, please contact Manager of Budget and Financial Control, Lake County Public Works Department, 650 West Winchester Road, Libertyville, Illinois 60048-1391.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

STATEMENTS OF NET ASSETS
As of November 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Operation account		
Cash	\$ 680,383	\$ 454,437
Investments	24,940,935	22,727,000
Tax receivable	686,599	14,306
Customer accounts receivable		
Billed	5,313,633	5,331,330
Unbilled	1,951,598	2,344,521
Allowance for uncollectible accounts	(85,000)	(85,000)
Accrued interest receivable	291,637	304,621
Restricted Assets		
Bond interest account		
Cash	5,458	96,665
Investments	976,238	900,000
Bond fund account		
Cash	5,346	12,186
Investments	2,569,827	2,700,000
Materials and supplies	555,229	552,671
Total Current Assets	<u>37,891,883</u>	<u>35,352,737</u>
NONCURRENT ASSETS		
Accrued interest receivable	6,557	20,888
Restricted Assets		
Bond reserve account		
Cash	391,203	471,203
Investments	4,880,000	4,800,000
Depreciation, extension and improvement account		
Cash	3,497	9,836
Investments	37,120,000	34,010,000
Construction account		
Cash	201,284	66,243
Investments	5,800,000	14,650,000
Subordinated ordinance - bond reserve account		
Cash	9,882	9,882
Investments	280,000	280,000
Crossover refunding escrow account		
Cash	500	500
Investments	17,024,723	17,053,608
Other Assets		
Prepaid connection fees	110,356	162,898
Unamortized bond issuance costs	877,955	984,209
Capital Assets		
Capital assets	312,198,372	309,033,715
Accumulated depreciation	(117,517,360)	(111,083,529)
Construction work in progress	20,643,118	13,638,252
Total Noncurrent Assets	<u>282,030,087</u>	<u>284,107,705</u>
Total Assets	<u>319,921,970</u>	<u>319,460,442</u>

LIABILITIES		
	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts payable	\$ 3,223,994	\$ 3,761,551
Due to other funds	21,812	40,268
Accrued wages	218,918	186,653
Accrued payroll taxes	58,748	53,441
Accrued vacation	439,742	408,402
Construction deposit	30,000	30,000
Accrued IMRF liability	88,084	79,918
Accelerated retirement obligation	-	60,000
Current Liabilities Payable from Restricted Assets		
Interest payable	-	155,742
Current portion of revenue bonds	3,230,000	3,810,000
Various construction accounts - accounts payable	618,074	750,996
Total Current Liabilities	<u>7,929,372</u>	<u>9,336,971</u>
NONCURRENT LIABILITIES		
Revenue bonds payable	61,109,109	63,459,471
Unamortized bond premium	292,816	327,422
Accrued sick leave	328,207	290,178
Other postemployment benefit obligation	515,004	386,253
Unearned revenue	1,719,856	1,149,376
Total Noncurrent Liabilities	<u>63,964,992</u>	<u>65,612,700</u>
Total Liabilities	<u>71,894,364</u>	<u>74,949,671</u>
NET ASSETS		
Invested in capital assets, net of related debt	180,513,597	181,722,143
Restricted	45,623,377	42,538,776
Unrestricted	21,890,632	20,249,852
TOTAL NET ASSETS	<u>\$ 248,027,606</u>	<u>\$ 244,510,771</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended November 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water and sewer charges	\$ 37,265,684	\$ 38,097,557
Miscellaneous	292,037	354,948
Total Operating Revenues	37,557,721	38,452,505
 OPERATING EXPENSES		
Personnel services		
Salaries and wages	5,980,398	6,046,199
Pension - IMRF and social security	1,112,825	1,066,283
Total Personnel Services	7,093,223	7,112,482
 Commodities		
Office supplies and maintenance	52,640	61,270
Postage	73,547	68,271
Housekeeping supplies	33,330	30,732
Gasoline	192,100	147,651
Buildings and ground supplies	122,048	127,570
Operational supplies	971,935	773,444
Chemical supplies	263,656	273,365
Uniforms	27,960	28,246
Laboratory supplies	100,352	75,921
Medical supplies	6,452	8,604
Non capitalized equipment and improvements	449,329	546,170
Miscellaneous	8,077	5,591
Total Commodities	2,301,426	2,146,835
 Contractual		
Insurance		
Employees' life, health and dental	1,359,318	1,326,086
Unemployment	12,960	12,960
Self insurance - liability and worker's compensation	467,136	467,136
Miscellaneous benefits	49,328	46,042
Gas (utility)	260,332	224,315
Electricity	1,778,766	1,702,868
Telephone and telemetry	153,180	150,881
Wholesale purchase of water	4,176,863	3,877,778
Wholesale sewage treatment	7,821,591	7,591,849
Vehicle maintenance	120,060	137,649
Buildings and equipment maintenance	667,581	566,803
Equipment rental/real estate lease	182,013	126,784

	<u>2011</u>	<u>2010</u>
OPERATING EXPENSES (cont.)		
Disposal service	\$ 397,319	\$ 360,788
Miscellaneous	<u>1,923,636</u>	<u>1,882,124</u>
Total Contractual	<u>19,370,083</u>	<u>18,474,063</u>
Depreciation	<u>6,637,264</u>	<u>6,356,679</u>
Total Operating Expenses	<u>35,401,996</u>	<u>34,090,059</u>
OPERATING INCOME	<u>2,155,725</u>	<u>4,362,446</u>
NON-OPERATING REVENUES (EXPENSES)		
Property tax revenue	859,567	876,326
Investment income	1,307,352	1,620,011
Interest rate subsidy	423,644	-
Proceeds from sale of capital assets	38,689	23,994
Grant revenue	-	94,754
Interest expense	(3,213,132)	(2,467,113)
Interest charged to construction	584,853	-
Amortization of bond issuance costs	(106,254)	(106,251)
Amortization of bond premium	<u>34,606</u>	<u>38,418</u>
Total Non-Operating Revenues	<u>(70,675)</u>	<u>80,139</u>
Income Before Contributions	2,085,050	4,442,585
CAPITAL CONTRIBUTIONS	511,518	5,668,842
CAPITAL CONTRIBUTIONS - CONNECTION FEES	<u>920,267</u>	<u>3,136,304</u>
CHANGE IN NET ASSETS	3,516,835	13,247,731
NET ASSETS - Beginning of Year	<u>244,510,771</u>	<u>231,263,040</u>
NET ASSETS - END OF YEAR	<u>\$ 248,027,606</u>	<u>\$ 244,510,771</u>

See accompanying notes to financial statements.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

STATEMENTS OF CASH FLOWS
For the Years Ended November 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 37,866,528	\$ 38,163,976
Paid to suppliers	(22,258,456)	(22,243,653)
Paid to employees	(6,002,978)	(5,677,327)
Net Cash Flows From Operating Activities	9,605,094	10,242,996
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Property tax revenue	859,567	876,326
Grant	-	94,754
Net Cash Flows From Noncapital and Related Financing Activities	859,567	971,080
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(10,746,494)	(10,769,356)
Proceeds from sale of capital assets	38,689	23,990
Debt retired	(3,810,000)	(3,585,000)
Interest paid	(2,489,236)	(1,478,610)
Bond issuance costs	-	(263,973)
Proceeds from debt issue	-	20,000,000
Capital contributions	275,000	25,863
Construction grants received	236,518	-
Interest rate subsidy	423,644	-
Connection charges	920,267	3,136,304
Net Cash Flows From Capital and Related Financing Activities	(15,151,612)	7,089,218
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities purchased	(76,567,000)	(80,067,000)
Marketable securities sold	80,095,885	59,105,028
Investment income	1,334,667	2,188,447
Net Cash Flows From Investing Activities	4,863,552	(18,773,525)
Net Change in Cash and Cash Equivalents	176,601	(470,231)
CASH AND CASH EQUIVALENTS - Beginning of Year	1,120,952	1,591,183
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,297,553	\$ 1,120,952
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Developer financed additions to capital assets	\$ -	\$ 5,642,979
Accretion of Series C of 2003 debt issue	\$ 879,638	\$ 835,622
Interest charged to construction	\$ 584,853	\$ -

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,155,725	\$ 4,362,446
Noncash items in operating income		
Depreciation	6,637,264	6,356,679
Unearned revenue	570,480	(162,205)
Accrued other postemployment benefit liability	128,751	128,751
Accrued accelerated retirement obligation	(60,000)	60,000
Changes in assets and liabilities		
Customer accounts receivable	410,620	(126,820)
Other accounts receivable	(672,293)	498
Due from/to general fund	(18,456)	(26,385)
Materials and supplies	(2,558)	(63,220)
Prepaid connection fees	52,542	179,157
Accrued vacation and sick leave	69,369	(98,899)
Accrued IMRF liability	8,166	(25,618)
Accounts payable	287,912	(285,783)
Accrued wages and payroll taxes	37,572	(55,605)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 9,605,094	\$ 10,242,996
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Operation account	\$ 25,621,318	\$ 23,181,437
Bond interest account	981,696	996,665
Bond fund account	2,575,173	2,712,186
Bond reserve account	5,271,203	5,271,203
Depreciation, extension and improvement account	37,123,497	34,019,836
Construction account	6,001,284	14,716,243
Subordinated ordinance - bond reserve account	289,882	289,882
Crossover refunding escrow account	17,025,223	17,054,108
Total Cash and Investments	94,889,276	98,241,560
Less: Noncash equivalents	(93,591,723)	(97,120,608)
CASH AND CASH EQUIVALENTS	\$ 1,297,553	\$ 1,120,952

See accompanying notes to financial statements.

LAKE COUNTY PUBLIC WORKS DEPARTMENT WATERWORKS AND SEWERAGE SYSTEMS FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lake County Public Works Department (department) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the department are described below.

REPORTING ENTITY

The department is a separate enterprise fund of Lake County, IL (county). The department is managed by a public works committee. The department provides water and sewerage service to communities within the county.

The water and sewerage utility operate under rules and rates established by the public works committee.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The department is presented as an enterprise fund of the county. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and 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 or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the department's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. The department has elected not to follow subsequent private-sector guidance.

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.

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Deposits and Investments (cont.)

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Transactions between the department and other funds of the county that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the department and other funds of the county are reported as due to/from other funds.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected.

Materials and Supplies

Materials and supplies are generally used for construction, operation and maintenance work, not for resale. The materials and supplies inventory is valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Prepaid Connection Fees

The department is required to purchase permits from North Shore Sanitary District prior to issuing permits to contractual and retail customers. The department must purchase permits in increments equal to 500 population equivalents.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Capital Assets

Capital assets are generally defined by the department as assets with an initial, individual cost of more than \$5,000 for moveable property, \$200,000 for infrastructure, and \$75,000 for all other assets, and an estimated useful life in excess of one year.

Capital assets of the department are recorded at cost or the fair market value at the time of contribution to the department. Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets both tangible and intangible used in operations are either depreciated or amortized using the straight-line method over the following useful lives unless they are inexhaustible:

	Years
Buildings and Other Improvements	25 – 40
Improvements Other Than Buildings	
Water facilities	10 – 75
Sewerage facilities	10 – 75
Machinery and Equipment	4 – 25

Accrued Sick and Vacation

Under terms of employment, employees earn vacation and sick leave in varying amounts which accumulate if not used. Once each year, employees with at least 30 days in their sick leave bank may elect to be paid for 50% of their unused sick leave days earned during the current year which exceed the 30 days.

Employees who are terminated and are in good standing may receive payment for 50% of their accumulated sick leave bank in excess of 30 days to a maximum of 60 days. Reimbursements are paid at the employee's then current pay rate. The liability is paid out of the general operating revenues of the department.

Vacation time shall not exceed 330 hours unless carryover approval by the public works committee is obtained.

Accrued IMRF Liability

This represents the amount of accrued Illinois Municipal Retirement funding the department owed for its full-time employees who participate in the retirement fund as discussed in further detail in Note 8.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Accelerated Retirement Obligation

This represents the amount of accrued funding the department owed for employees who participate in the county's accelerated retirement option as discussed in further detail in Note 9.

Unearned Revenues

Unearned revenues consist of prepaid property taxes and taxes levied for fiscal year 2012. The department received property taxes related to Special Service Area No. 9 in advance from the respective property owners. The department will amortize the prepaid property taxes on a straight-line basis until 2017. At November 30, 2011 and 2010, the balance of prepaid property taxes was \$1,042,804 and \$1,149,376, respectively. At November 30, 2011, the balance of taxes levied for fiscal year 2012 was \$677,052.

Long-Term Obligations

Long-term debt and other obligations are reported as department liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Gains or losses on prior refunding are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Construction Deposit

A deposit was received for the installation of a cell phone antenna on a water tower. When construction is complete this will be returned to the customer.

REVENUES AND EXPENSES

The department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a department's principal ongoing operations. The principal operating revenues of the department are charges to customers for sales and services. At year end, unbilled revenues are accrued based on estimates of the first billings in the subsequent year. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capital Contributions

Cash and capital assets are contributed to the department from customers, the county or external parties. The value of property contributed to the department is reported as revenues on the statements of revenues, expenses and changes in net assets.

Capital Contributions – Connection Fees

The department charges new customers a connection fee to connect to the system. Fees collected are recorded as capital contributions on the statements of revenues, expenses and changes in net assets.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES (cont.)

Property Taxes

Property taxes are levied and recorded as revenue as of the second Tuesday in November on property values assessed as of the same date. The tax levy is payable in two equal installments due June 1 and September 1. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

COMPARATIVE DATA

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts), \$250,000 for interest-bearing demand deposit accounts, and unlimited amounts for noninterest bearing transaction accounts as of November 30, 2011. Coverage as of November 30, 2010 included \$250,000 for interest bearing accounts and unlimited for noninterest bearing accounts.

The department may also maintain separate cash and investment accounts at the same financial institutions utilized by the county. Federal depository insurance applies to all county accounts, and accordingly, the amount of insured funds is not determinable for the department alone. Please refer to the county's financial statements for categorization of custodial credit risk on all county accounts.

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the department's deposits may not be returned to the department.

The department maintains certain deposits at the same institutions as the county. The custodial credit risk pertaining specifically to the department's resources at these institutions cannot be determined individually for those accounts.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Deposits (cont.)

The following is a summary of the department's total deposit balances at these institutions.

	2011		2010	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Fifth Third Bank	\$ 860,622	\$ 1,052,994	\$ 680,422	\$ 767,143
Associated Bank	1,500,000	1,500,000	21,000,000	21,000,000
First Midwest Bank	8,243,559	8,243,559	27,852,809	27,852,809
Inland Bank	3,000,000	3,000,000	5,000,000	5,000,000
MB Financial	18,067,000	18,067,000	6,067,000	6,067,000
Northern Trust	33,500,000	33,500,000	8,000,000	8,000,000
Norstates Bank	-	-	1,000,000	1,000,000
Private Bank	7,000,000	7,000,000	9,500,000	9,500,000
State Bank of the Lakes	1,000,000	1,000,000	1,000,000	1,000,000
Harris Bank	3,500,000	3,500,000	-	-
Other Banks	1,000,000	1,000,000	1,000,000	1,000,000
Totals	\$ 77,671,181	\$ 77,863,553	\$ 81,100,231	\$ 81,186,952

The county's current investment policy addresses custodial credit risk. The county's investment policy states that it will not maintain funds in any financial institution that is not a member of the FDIC or National Credit Union Association Systems (NCUA). Furthermore, the county will not maintain funds in any financial institutions that do not collateralize all funds in excess of the FDIC or NCUA insurance limits. Refer to the county financial statements for additional details.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At November 30, 2011 and 2010, the department had no investments exposed custodial credit risk.

The county's investment policy addresses this risk by stating that U.S. Government agency obligations which have a liquid market and determinable market value are acceptable investments.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

As of November 30, 2011, the department's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1	1 - 5	6 - 10
U.S. Treasury SLGS	\$ 17,025,223	\$ 15,402	\$ 17,009,821	\$ -

As of November 30, 2010, the department's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1	1 - 5	6 - 10
U.S. Treasury SLGS	\$ 17,054,108	\$ 14,792	\$ 17,039,316	\$ -

The county's investment policy addresses this risk by stating that U.S. Government agency obligations which have a liquid market and determinable market value are acceptable investments.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances as of November 30, 2011 and 2010:

Due To	Due From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
General Fund	Waterworks and Sewerage Fund	\$ 21,812	Operations	\$ 40,268	Operations

NOTE 4 – RESTRICTED ASSETS

SERIES A OF 2003, B AND C OF 2003 AND A AND B OF 2006 AND A OF 2010:

All revenues of the entire combined system are reserved to meet the requirements of the bond ordinance. The ordinances authorizing the issuance of series revenue bonds require separate accounts be maintained and designated as follows:

1. Operation account
2. Bond interest account
3. Bond fund account
4. Bond reserve account
5. Depreciation, extension and improvement account
6. Reserve for construction account
7. Crossover refunding account

Quarterly cash transfers are required on or before the 15th day of each quarter ending February, May, August and November in the following order:

Operation account	An amount sufficient to provide (1) a sum on hand equal to one-fourth of the amount of the operating expenses as stated in the annual budget, and (2) an operating reserve in an amount certified from time to time by the consulting engineer as the reasonable amount necessary for 45 days' cost of operation, maintenance, and ordinary current repairs of the system.
Bond interest account	An amount, together with any other monies then on deposit in the account, sufficient to pay the amount of interest becoming due on the next interest date.
Bond fund account	An amount, together with any other monies then on deposit in the account, sufficient to pay the amount of interest becoming due on the next interest date.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 4 – RESTRICTED ASSETS (cont.)

SERIES A OF 2003, B AND C OF 2003 AND A AND B OF 2006 AND A OF 2010: (cont.)

Bond reserve account	Quarterly deposits of \$40,000 until the maximum debt service is reached, or such higher amount as the County Board may designate from time to time.
Depreciation, extension, and improvement account	Quarterly deposits of \$150,000 or such higher amounts as the County Board may designate from time to time. \$3,110,000 and \$6,510,000 in deposits were made to this account in fiscal years 2011 and 2010, respectively.
Reserve for construction account	All monies deposited in a construction account shall be applied to the cost of construction, improvements, or additions of the water and sewer systems.
Crossover refunding account	All monies deposited in the crossover refunding account shall be held to provide for future debt service payments on callable debt until the crossover date, June 1, 2013.

Funds accumulated in the bond fund are comprised of the bond interest account, bond fund account, and bond reserve account and shall be used solely for the purpose of paying the principal, redemption price, and interest on the bonds, and for retiring such bonds prior to maturity.

Funds accumulated in the bond reserve account shall be used to make up any deficiency in the interest account or bond fund account. If, at any time, the amounts held in the bond reserve account exceed the aggregate debt service requirement for the bonds of all series then outstanding, such excess shall be transferred to the surplus account.

Funds accumulated in the surplus account shall be used to make up any deficiency in any reserve account. Any excess funds may be used in accordance with County Board designation.

***WATER AND SEWER SYSTEM SUBORDINATE REVENUE BONDS,
SERIES S-1 AND S-2 OF 2005 AND S OF 2009***

The ordinance authorizing the subordinate issue of bonds created separate accounts to be designated as follows:

- > Subordinate interest account
- > Subordinate bond account
- > Subordinate reserve account

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 4 – RESTRICTED ASSETS (cont.)

***WATER AND SEWER SYSTEM SUBORDINATE REVENUE BONDS, SERIES S-1 AND S-2 OF 2005
AND S OF 2009 (cont.)***

Cash transfers shall be made to the subordinate accounts after the required cash transfers to accounts 1 through 6 for the series revenue bonds have been made, in the following order:

Subordinate interest account On the 25th day of February, May, August, and November, an amount at least equal to the interest becoming due on the Series S-1, S-2 of 2005 bonds and S of 2009 on the next succeeding interest payment date. All monies in the account shall be used only for the purpose of paying interest on the Series S-1, S-2 of 2005 and S of 2009 bonds.

Subordinate reserve account Annual deposits no later than November 25 in an amount sufficient to provide for portions of the maximum annual debt service as specified in the ordinance. All funds in the subordinate reserve account shall be retained and used for the following purposes:

1. For the payment of interest on, and principal of, Series S-1, S-2 of 2005 and S of 2009 bonds, whenever there are insufficient funds in the subordinate interest account and in the subordinate bond account for that purpose, or
2. For calling and redeeming Series S-1 and S-2 of 2005 bonds prior to their maturity, or for the purchase thereof on the open market, at not more than par and accrued interest to the date of redemption or purchase.

RESTRICTED NET ASSETS

The following calculation supports the amount of restricted net assets:

	2011	2010
Restricted Assets		
Bond interest	\$ 981,696	\$ 996,665
Bond fund	2,575,173	2,712,186
Bond reserves	5,561,085	5,561,085
Depreciation, extension, and improvement	37,123,497	34,019,836
Construction	6,001,284	14,716,243
Crossover refunding escrow	17,025,223	17,054,108
Total Restricted Assets	69,267,958	75,060,123
Less: Restricted Assets Not Funded by Revenues		
Construction	(6,001,284)	(14,716,243)
Crossover refunding escrow	(17,025,223)	(17,054,108)
Current Liabilities Payable From Restricted Assets	(618,074)	(750,996)
Total Restricted Net Assets as Calculated	\$ 45,623,377	\$ 42,538,776

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 5 – CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 2,577,013	\$	\$ -	\$ 2,577,013
Construction in progress	13,638,252	9,062,105	(2,057,239)	20,643,118
Total Capital Assets Not Being Depreciated	<u>16,215,265</u>	<u>9,062,105</u>	<u>(2,057,239)</u>	<u>23,220,131</u>
Capital assets being depreciated				
Buildings and other improvements	72,138,881	262,093	-	72,400,974
Improvements other than buildings				
Water facilities	76,333,010	397,983	-	76,730,993
Sewer facilities	148,652,376	2,434,324	(159,871)	150,926,829
Machinery and equipment	9,332,435	273,690	(43,562)	9,562,563
Total Capital Assets Being Depreciated	<u>306,456,702</u>	<u>3,368,090</u>	<u>(203,433)</u>	<u>309,621,359</u>
Total Capital Assets	<u>322,671,967</u>	<u>12,430,195</u>	<u>(2,260,672)</u>	<u>332,841,490</u>
Less: Accumulated depreciation for				
buildings and other improvements	(28,569,836)	(1,850,040)	-	(30,419,876)
Improvements other than buildings				
Water facilities	(23,788,784)	(1,182,353)	-	(24,971,137)
Sewer facilities	(51,199,264)	(3,159,247)	80,735	(54,277,776)
Machinery and equipment	(7,525,645)	(366,488)	43,562	(7,848,571)
Total Accumulated Depreciation	<u>(111,083,529)</u>	<u>(6,558,128)</u>	<u>124,297</u>	<u>(117,517,360)</u>
Net Capital Assets	<u>\$ 211,588,438</u>			<u>\$ 215,324,130</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

Capital asset activity for the year ended November 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 2,576,151	\$ 862	\$ -	\$ 2,577,013
Construction in progress	4,264,031	11,953,841	(2,579,620)	13,638,252
Total Capital Assets Not Being Depreciated	<u>6,840,182</u>	<u>11,954,703</u>	<u>(2,589,620)</u>	<u>16,215,265</u>
Capital assets being depreciated				
Buildings and other improvements	71,471,866	667,015	-	72,138,881
Improvements other than buildings				
Water facilities	74,269,587	2,123,302	(59,879)	76,333,010
Sewer facilities	142,790,854	5,861,522	-	148,652,376
Machinery and equipment	9,516,201	251,305	(435,071)	9,332,435
Total Capital Assets Being Depreciated	<u>298,048,508</u>	<u>8,903,144</u>	<u>(494,950)</u>	<u>306,456,702</u>
Total Capital Assets	<u>304,888,690</u>	<u>20,857,847</u>	<u>(3,074,570)</u>	<u>322,671,967</u>
Less: Accumulated depreciation for				
buildings and other improvements	(26,738,379)	(1,831,457)	-	(28,569,836)
Improvements other than buildings				
Water facilities	(22,680,615)	(1,164,866)	56,697	(23,788,784)
Sewer facilities	(48,215,127)	(2,984,137)	-	(51,199,264)
Machinery and equipment	(7,587,678)	(373,038)	435,071	(7,525,645)
Total Accumulated Depreciation	<u>(105,221,799)</u>	<u>(6,353,498)</u>	<u>(491,768)</u>	<u>(111,083,529)</u>
Net Capital Assets	<u>\$ 199,666,891</u>			<u>\$ 211,588,438</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS PAYABLE

The following revenue bonds have been issued:

<u>Bond</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 11/30/11</u>
2003 A	Water and Sewer System revenue refunding bonds	2011	5.20 - 5.50%	\$ 20,790,000	\$ -
2003 B	Vernon Hills New Century Town WWTP	2012	2.25 - 4.125%	3,405,000	2,300,000
2003 C	Vernon Hills New Century Town WWTP	2021	4.55 - 5.65%	17,649,109	17,649,109
2005 S-1	Connection charges to Central Lake County JAWA	2024	3.75 - 4.50%	1,000,000	740,000
2005 S-2	Refund the outstanding Series A97S bonds	2017	5.20 - 5.50%	1,000,000	570,000
2006 A	Water and Sewer System revenue refunding bonds	2017	4.00%	6,700,000	4,715,000
2006 B	Crossover refunding	2021	4.25 - 4.50%	17,170,000	17,170,000
2009 S	Hawthorn Woods/Glenshire Water Project	2039	2.70 - 6.60%	1,220,000	1,195,000
2010A	Various Capital Improvement Water/Sewer Projects	2035	2.00 – 5.45%	20,000,000	20,000,000

Outstanding revenue bonds at November 30, 2011 consist of \$61,834,109 of series ordinance revenue bonds due serially December 1, 2011 through 2035 and \$2,505,000 of subordinate revenue bonds due serially December 1, 2011 through 2039. Annual interest rates vary between 2.00% and 5.65% for the series revenue bonds and vary between 2.70% and 6.60% for the subordinate bonds.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS PAYABLE (cont.)

Aggregate principal payments applicable to the bonds outstanding are:

Year Ending November 30	Principal	Interest	Total
2012	\$ 3,230,000	\$ 2,139,780	\$ 5,369,780
2013	2,498,150	2,930,028	5,428,178
2014	4,028,848	2,977,883	7,006,731
2015	4,060,368	2,946,618	7,006,986
2016	4,107,976	2,913,845	7,021,821
2017 - 2021	27,233,767	15,385,217	42,618,984
2022 - 2026	5,475,000	4,427,740	9,902,740
2027 - 2031	5,975,000	3,100,700	9,075,700
2032 - 2036	7,530,000	1,156,015	8,686,015
2037 - 2039	200,000	26,730	226,730
Totals	<u>\$ 64,339,109</u>	<u>\$ 38,004,556</u>	<u>\$ 102,343,665</u>

The Series C 2003 Capital Appreciation Bonds are deep discount financial instruments which are issued in such denominations as will result in the total amount received by the purchaser at maturity being equal to \$5,000 or any integral multiple thereof. As such, a portion of the appreciation in value of each certificate "accretes" to each certificate annually. Accretion of the certificates recorded increased the long-term obligation payable at maturity of the certificates by \$879,638 and \$835,622 at November 30, 2011 and 2010, respectively. This brought the total accretion of the certificates to \$6,054,885 and \$5,175,247 at November 30, 2011 and 2010, respectively.

The Series A 2010 Various Capital Projects debt was issued under the taxable municipal debt Build America Bond Program (BABs). The department's annual interest expense for these bonds is shown gross and will be reduced by a 35% federal interest subsidy provided by the federal government.

The county established Special Service Area No. 9 on November 10, 1994. The Special Service Area will finance a substantial portion of a sewage treatment facility and related system improvements in the area. Allocation of \$21 million in estimated costs was made on the basis of population equivalents. Current plans call for using property taxes generated from the area to cover debt service of future financings. The current resources have come from prepayment of the taxes by certain property holders and from the 2003 tax levy on other properties in the area.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended November 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
Revenue Bonds					
Series ordinance	\$ 64,614,471	\$ 879,638	\$ 3,660,000	\$ 61,834,109	\$ 3,075,000
Subordinated series	2,655,000	-	150,000	2,505,000	155,000
Unamortized					
Bond premium	327,422	-	34,606	292,816	34,606
Total Bonds Payable	<u>67,596,893</u>	<u>879,638</u>	<u>3,844,606</u>	<u>64,631,925</u>	<u>3,264,606</u>
Accrued sick leave	290,178	42,803	4,774	328,207	-
OPEB obligation	386,253	128,751	-	515,004	-
Unearned revenues	<u>1,149,376</u>	<u>744,280</u>	<u>173,800</u>	<u>1,719,856</u>	<u>173,800</u>
Long-Term Liabilities	<u>\$ 69,422,700</u>	<u>\$ 1,795,472</u>	<u>\$ 4,023,180</u>	<u>\$ 67,194,992</u>	<u>\$ 3,438,406</u>

Long-term liability activity for the year ended November 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
Revenue Bonds					
Series ordinance	\$ 47,248,849	\$ 20,835,622	\$ 3,470,000	\$ 64,614,471	\$ 3,660,000
Subordinated series	2,770,000	-	115,000	2,655,000	150,000
Unamortized					
Bond premium	362,029	-	34,607	327,422	34,606
Total Bonds Payable	<u>50,380,878</u>	<u>20,835,622</u>	<u>3,619,607</u>	<u>67,596,893</u>	<u>3,844,606</u>
Accrued sick leave	383,251	48,048	141,121	290,178	-
OPEB obligation	257,502	128,751	-	386,253	-
Unearned revenues	<u>1,311,581</u>	<u>13,935</u>	<u>176,140</u>	<u>1,149,376</u>	<u>176,140</u>
Long-Term Liabilities	<u>\$ 52,333,212</u>	<u>\$ 21,026,356</u>	<u>\$ 3,936,868</u>	<u>\$ 69,422,700</u>	<u>\$ 4,020,746</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

DEBT COVERAGE

Revenue, as defined by the Water and Sewer System Revenue Bond - Basic Ordinance, includes sources of operating and nonoperating revenues, tax levy, and interest income. The 2011 and 2010 debt coverage is as follows:

	2011	2010
Operating revenues	\$ 37,557,721	\$ 38,452,505
Connection fees	920,267	3,136,304
Non-operating income – interest earned	1,307,352	1,620,011
– interest rate subsidy	423,644	-
– property taxes	859,567	876,326
Revenue as defined by ordinance	41,068,551	44,058,146
Expenses (less depreciation)	(28,764,732)	(27,733,380)
Net Revenue Available Before Debt Service (as Defined in the Series Bond Ordinance)	\$ 12,303,819	\$ 16,351,766
Debt Service Requirements – current year		
Serial bond deposits	\$ 3,810,000	\$ 3,585,000
Interest	2,333,494	1,631,491
Total Debt Service Requirements	\$ 6,143,494	\$ 5,216,491
Revenue Bond Coverage as Calculated	2.00	3.13
Revenue Bond Coverage Required by Bond Ordinance	1.50	1.50

In addition to the above calculation, the bond ordinance covenants state the ratio of net revenue derived from charges for services, excluding connection charges, shall be at all times not less than 1.25 of the principal and interest on all outstanding bonds payable during the year. For fiscal years 2011 and 2010, this ratio was 1.85 and 2.53, respectively. Hence, for fiscal years 2011 and 2010, the coverage was met.

Annual principal and interest payments on the bonds are expected to require 15% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$102.3 million. Principal and interest paid for 2011 and 2010 were \$6,299,236 and \$5,063,610, respectively.

REVENUE REFUNDING BOND SERIES OF 2003 A

The county issued \$20,790,000 of Revenue Refunding Bond Series of 2003 A, on June 1, 2003, to complete a partial in-substance defeasance of the outstanding Revenue Bond Series A 1993 bonds. An irrevocable trust was established to handle the partially refunded future principal and interest payments. The partially refunded principal balance was paid during 2011.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

CROSSOVER REFUNDING

On November 2, 2006, the public works issued \$17,170,000 in revenue bonds with interest rates between 4.25% – 4.50% to refund \$16,611,835 of callable bonds with interest rates between 4.90% - 5.65%. The proceeds were deposited in an account to provide for future debt service payments on the new bonds until the crossover date, June 1, 2013. The bonds are not considered to be defeased and the liability for those bonds as well as the escrow account is recorded in the financial statements. This type of advance refunding is commonly called a crossover refunding.

The cash flow requirement on the old bonds after the crossover date, June 1, 2013, is \$22,150,000 from December 1, 2013 through 2021. The cash flow requirement on the new bonds after the crossover date is \$21,252,222 from 2013 through 2021. At the date of the crossover, this will result in an economic gain of \$897,778 with a present value savings of \$524,352 using a 4.23% factor.

NOTE 7 – NET ASSETS

GASB No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the department's policy to use restricted resources first, then unrestricted resources as they are needed.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 7 – NET ASSETS (cont.)

The following calculation supports the net assets invested in capital assets, net of related debt:

	2011	2010
Capital assets	\$ 312,198,372	\$ 309,033,715
Accumulated depreciation	(117,517,360)	(111,083,529)
Construction work in progress	20,643,118	13,638,252
Sub-Totals	215,324,130	211,588,438
Less: Capital Related Debt		
Current portion of capital related long-term debt	3,185,000	3,765,000
Long-term portion of capital related long-term debt	54,359,224	57,544,224
Unamortized bond premium	292,816	327,422
Sub-Totals	57,837,040	61,636,646
Add: Unspent Debt Proceeds		
Construction account	6,001,284	14,716,243
Crossover refunding escrow account	17,025,223	17,054,108
Sub-Totals	23,026,507	31,770,351
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 180,513,597	\$ 181,722,143

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM

All full-time county employees participate in the Illinois Municipal Retirement Fund (IMRF). The IMRF provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. All permanent employees expected to work over 600 hours a year are eligible to participate in the IMRF. Employees participating in the IMRF were required by statute to contribute 4.5% of their annual covered salary in calendar years 2011, 2010, and 2009. The employer rate for calendar years 2011, 2010, and 2009 were 11.44%, 10.96%, and 8.59%, respectively. All employer contributions are made by the county with a portion of the cost being allocated to the department. The actuarial valuation of the plan is computed for the county as a whole and; therefore, it is impractical to determine the Lake County Public Works Department, Waterworks, and Sewerage Systems Fund's proportionate share.

IMRF is established under statutes adopted by the Illinois General Assembly, and is governed by a Board of eight Trustees who must also be participating members and one Trustee who must be receiving an IMRF annuity. The IMRF issues an annual financial report which may be obtained by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, IL 60523-2337, or by visiting the IMRF website at <http://www.imrf.org>.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 8 – EMPLOYEES RETIREMENT SYSTEM (cont.)

Illinois financial statements.

	Year Ended November 30		
	2011	2010	2009
Total covered payroll	\$ 5,980,398	\$ 6,046,199	\$ 6,382,182
Total required contributions	684,158	662,663	548,229
Total required contributions	11.44%	10.96%	8.59%

NOTE 9 – ACCELERATED RETIREMENT OBLIGATION

The County Administrator offers certain eligible employees an accelerated retirement option. Eligible employees are allowed two options.

Option 1 will allow employees to continue health insurance and dental benefits and make contributions at the same monthly rate as full-time regular employees for two years. Option 2 allows employees to continue health and dental insurance benefits and make contributions at the same monthly rate as full-time regular employees for one year and receive one (1) week of pay for every two years of service above 7 years with a maximum total payout of \$20,000. Employees will be allowed to continue health insurance and dental benefits at the retiree group rate after the chosen health insurance benefit option has expired.

Further details regarding the county's liability as a whole can be found in the Lake County, Illinois financial statements.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

LONG-TERM CONTRACTS – GENERAL

At November 30, 2011, the department had commitments under long-term contracts for the following:

On July 15, 2010, the department entered into a 20 year contract with the Village of Fox Lake for the treatment and disposal of sanitary and industrial wastes which the county system has collected, received and transported to the Village of Fox Lake treatment plant.

On March 21, 1994, the department entered into a continuous and perpetual contract with the North Shore Sanitary District (NSSD) to deliver to the NSSD's Gurnee Plant all waste that the county collects from the county's Northeast Central Service Area.

On March 22, 1989, the county entered into a 40 year agreement to become a charter member of the Central Lake County Joint Action Water Agency. The agency agreed to supply water to four county water systems and the county agreed to purchase water exclusively from the agency.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont.)

CLAIMS AND JUDGMENTS

Village of Round Lake et al. v. County of Lake and Village of Fox Lake, 09 MR 1770, pending in the Circuit Court of Lake County. Three municipalities have sued the County under multiple theories. Plaintiffs assert that the County is attempting to include unlawful provisions in a proposed contract with the plaintiffs for continuing sewage transport services and that the County, as a de facto public utility in the provision of sewer services, is unlawfully using its alleged superior bargaining position to exact unlawful concessions from plaintiffs with respect to the same proposed sewage transport services contracts. Plaintiffs also assert that the County's sewer rates have been and are unreasonable and excessive and that the County has unlawfully used monies collected from one sewer subsystem to subsidize or pay costs attributable to other County sewer subsystems. Plaintiffs seek declaratory, injunctive relief, an accounting of monies received from customers in the Northwest Lake Facilities Planning Area, unspecified damages, and a credit or refund for allegedly excessive sewer user rates collected by the County. In July 2011, the case settled in principle, with the parties to memorialize the final agreement by way of a new water and sewer contract. The parties continue to work towards negotiating the language of the contract. The settlement between the County and the Plaintiffs does not include any monetary damages

OPEN CONTRACTS

The department has active construction projects as of November 30, 2011. The projects include construction of additional wastewater treatment facilities, water main replacement, and interceptor sewer relining projects. At year end, the department's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Building and structures	\$ 382,521	\$ 68,652
Interceptor sewer improvements	592,082	286,402
Wastewater reclamation facilities improvements	9,999,393	5,516,531
Water and sewer main replacement	<u>8,639,186</u>	<u>2,553,922</u>
Totals	<u>\$ 19,613,182</u>	<u>\$ 8,425,507</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 11 – SELF INSURANCE

The department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The county is self-insured for all of these risks. These activities are accounted for and financed by the county risk management special revenue fund and health, life, and dental internal service fund. Refer to the county statements for added details.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS THAN PENSIONS (OPEB)

Being an enterprise fund of the county, the Department of Public Works is liable for its allocated share of all health insurance expenses for the employees. Prior to 2009, the department has neither contributed nor recognized the cost of OPEB in periods when the related services are received, due to not measuring the OPEB obligation. However, since fiscal year 2009, the department, as part of the county's implementation of GASB Statement No 45 is being able to recognize, measure, and display OPEB expenses and related liabilities of \$128,751 for each fiscal year.

COUNTY EMPLOYEES

The county's group health insurance plan is a single-employer self-insured health care plan administered by the county. The Plan provides limited health care coverage at 100% of the active premium rate. The State of Illinois requires IMRF employers who offer health insurance to their active employees to offer the same health insurance to disabled members, retirees, and surviving spouses at the same premium rate for active employees. Therefore an implicit rate subsidy exists for retirees (that is, the difference between the premium rate charged to retirees for the benefit and the estimated rate that would be applicable to those retirees if that benefit were acquired for them as a separate group) resulting from the participation in postemployment healthcare plans that cover both active employees and retirees. The plan operates on a pay-as-you-go funding basis. No assets are accumulated or dedicated to funding the retiree health insurance benefits.

The county's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the county's annual OPEB cost for the year, the amount actually contributed to plan, and changes in the total county's net OPEB obligation to the Retiree Health Plan:

Annual required contribution (ARC)	\$ 2,666,000
Interest on net OPEB obligation	407,000
Adjustment to ARC	<u>(408,000)</u>
Annual OPEB cost	2,665,000
Contributions made	<u>868,000</u>
Increase in net OPEB obligation	1,797,059
Net OPEB Obligation – Beginning of Year	<u>10,185,000</u>
Net OPEB Obligation – End of Year	<u>\$ 11,982,000</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS THAN PENSIONS (OPEB) (cont.)

COUNTY EMPLOYEES (cont.)

The county's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009 through 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contribution	Net OPEB Obligation
11/30/2011	\$ 2,665,000	32.6%	\$ 11,982,000
11/30/2010	4,259,000	20.5%	10,185,000
11/30/2009	4,501,847	19.4%	7,095,799

The funded status of the plan as of December 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 27,362,000
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 27,362,000
Funded ratio (actuarial value of plan assets/AAL)	-%
Covered payroll (active plan members)	\$ 132,341,000
UAAL as a percentage of covered payroll	20.7%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2011 and 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS THAN PENSIONS (OPEB) (cont.)

COUNTY EMPLOYEES (cont.)

In the December 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% after 9 years. Both rates include a 3% salary inflation assumption. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at November 30, 2011 was 30 years.

**REQUIRED
SUPPLEMENTAL INFORMATION**

LAKE COUNTY, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
 For the Year Ended November 30, 2011
 (UNAUDITED)

County							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)	
11/30/2011	\$	-	\$ 27,362,000	\$ 27,362,000	0.00%	\$ 132,341,000	20.68%
11/30/2010		-	46,157,000	46,157,000	0.00%	153,979,000	30.00%
11/30/2009		-	47,307,231	47,307,231	0.00%	144,383,846	32.76%

LAKE COUNTY, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - ILLINOIS MUNICIPAL RETIREMENT FUND
 For the Year Ended November 30, 2011
 (UNAUDITED)

County Employees Other Than Sheriff's Law Enforcement Personnel

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010	\$ 256,764,977	\$ 334,235,293	\$ 77,470,316	76.82%	\$ 136,179,461	56.89%
12/31/2009	263,196,054	325,310,094	62,114,040	80.91%	140,461,693	30.00%
12/31/2008	271,037,907	334,084,750	63,046,843	81.13%	137,194,593	45.95%
12/31/2007	311,454,612	318,067,885	6,613,273	97.92%	131,020,386	5.05%
12/31/2006	284,386,212	299,653,467	15,267,255	94.91%	124,578,781	12.26%
12/31/2005	256,109,452	280,035,012	23,925,560	91.46%	121,134,521	19.75%
12/31/2004	235,470,636	270,653,482	35,182,846	87.00%	121,751,974	28.90%
12/31/2003	224,061,150	243,811,860	19,750,710	91.90%	114,211,803	17.29%
12/31/2002	226,358,860	226,370,502	11,642	99.99%	108,270,084	0.01%
12/31/2001	228,026,014	203,936,449	(24,089,565)	111.81%	102,614,418	0.00%
12/31/2000	208,554,368	177,076,743	(31,477,625)	117.78%	91,631,838	0.00%

SUPPLEMENTAL INFORMATION

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

CAPITAL ASSETS
As of November 30, 2011

	Balance 11/30/2010	Additions	Retirements	Balance 11/30/2011
LAND	\$ 2,577,013	\$ -	\$ -	\$ 2,577,013
BUILDINGS AND IMPROVEMENTS	72,138,881	262,093	-	72,400,974
IMPROVEMENTS OTHER THAN BUILDINGS				
Water Facilities				
Transmission and distribution mains	57,878,007	-	-	57,878,007
Elevated water storage tanks	9,754,696	-	-	9,754,696
Land improvements	1,720,385	397,983	-	2,118,368
Wells	6,979,922	-	-	6,979,922
Total Water Facilities	76,333,010	397,983	-	76,730,993
Sewer Facilities				
Trunk and lateral sewers	63,932,831	2,434,324	(159,871)	66,207,284
Lift stations	13,370,163	-	-	13,370,163
Retention lagoon	499,890	-	-	499,890
Treatment equipment	31,471,030	-	-	31,471,030
Interceptor sewers	39,378,462	-	-	39,378,462
Total Sewer Facilities	148,652,376	2,434,324	(159,871)	150,926,829
Total Improvements Other Than Buildings	224,985,386	2,832,307	(159,871)	227,657,822
MACHINERY AND EQUIPMENT				
Fire hydrants	99,231	-	-	99,231
Pumping equipment	3,364,526	-	-	3,364,526
Laboratory equipment	578,138	35,018	-	613,156
Trucks and trailers	2,758,216	90,413	(40,079)	2,808,550
Other	2,532,324	148,259	(3,483)	2,677,100
Total Machinery and Equipment	9,332,435	273,690	(43,562)	9,562,563
TOTAL PLANT IN SERVICE	<u>\$ 309,033,715</u>	<u>\$ 3,368,090</u>	<u>\$ (203,433)</u>	<u>\$ 312,198,372</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

ACCUMULATED DEPRECIATION
For the Year Ended November 30, 2011

	Balance 11/30/10	Additions	Retirements	Balance 11/30/11
LAND	\$ -	\$ -	\$ -	\$ -
BUILDINGS AND IMPROVEMENTS	(28,569,836)	(1,850,040)	-	(30,419,876)
IMPROVEMENTS OTHER THAN BUILDINGS				
Water Facilities				
Transmission and distribution mains	(14,740,182)	(735,124)	-	(15,475,306)
Elevated water storage tanks	(4,952,081)	(174,727)	-	(5,126,808)
Land improvements	(177,314)	(37,761)	-	(215,075)
Wells	(3,919,207)	(234,741)	-	(4,153,948)
Total Water Facilities	(23,788,784)	(1,182,353)	-	(24,971,137)
Sewer Facilities				
Trunk and lateral sewers	(19,628,384)	(899,395)	80,735	(20,447,044)
Lift station	(5,604,076)	(620,140)	-	(6,224,216)
Retention lagoon	(310,484)	(15,169)	-	(325,653)
Treatment equipment	(15,084,532)	(1,099,497)	-	(16,184,029)
Interceptor sewers	(10,571,788)	(525,046)	-	(11,096,834)
Total Sewer Facilities	(51,199,264)	(3,159,247)	80,735	(54,277,776)
Total Improvements Other Than Buildings	(74,988,048)	(4,341,600)	80,735	(79,248,913)
MACHINERY AND EQUIPMENT				
Fire hydrants	(73,595)	(1,807)	-	(75,402)
Pumping equipment	(3,286,899)	(31,420)	-	(3,318,319)
Laboratory equipment	(367,519)	(39,054)	-	(406,573)
Trucks and trailers	(1,897,404)	(179,683)	40,079	(2,037,008)
Other	(1,900,228)	(114,524)	3,483	(2,011,269)
Total Machinery and Equipment	(7,525,645)	(366,488)	43,562	(7,848,571)
TOTAL ACCUMULATED DEPRECIATION	\$ (111,083,529)	\$ (6,558,128)	\$ 124,297	\$ (117,517,360)

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

SERIES ORDINANCE SYSTEM
COMBINING SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended November 30, 2011

	Operation Account	Reserved for Restricted Accounts			Combined Total
		Series Ordinance	Subordinate Ordinance	Construction	
Cash balance, December 1, 2010	\$ 454,437	\$ 589,890	\$ 9,882	\$ 66,243	\$ 1,120,452
Receipts					
Bond proceeds	-	-	-	-	-
Water and sewer charges	39,773,047	-	-	-	39,773,047
Interest	488,215	-	-	125,731	613,946
Sale or redemption of investments	1,160,000	42,410,000	280,000	14,650,000	58,500,000
Contributions - Special Service Area #9 & 14	-	757,753	-	-	757,753
Contributions - Capital Improvements	-	-	-	275,000	275,000
Grants/Subsidies	423,644	213,221	-	-	636,865
Other	39,006	-	-	-	39,006
Total receipts	41,883,912	43,380,974	280,000	15,050,731	100,595,617
Disbursements					
Operating expenses	29,743,542	-	-	-	29,743,542
Purchase of investments	3,373,935	45,546,065	280,000	5,800,000	55,000,000
Principal due December 1, 2011	-	3,660,000	150,000	-	3,810,000
Interest	-	1,611,202	128,428	-	1,739,630
Transfers pursuant to bond ordinances	8,478,830	(8,175,402)	(278,428)	(25,000)	-
Other	61,659	-	-	-	61,659
Capital outlay expenditures	-	923,496	-	9,140,690	10,064,186
Total disbursements	41,657,966	43,565,361	280,000	14,915,690	100,419,017
Cash balance, November 30, 2011	\$ 680,383	\$ 405,504	\$ 9,882	\$ 201,284	\$ 1,297,053

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

SERIES ORDINANCE SYSTEM OPERATION ACCOUNT
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended November 30, 2011

	Operation Account		Combined Total
	Revenue Account	Operation Account	
Cash balance, December 1, 2010	\$ -	\$ 454,437	\$ 454,437
Receipts			
Water and sewer charges	39,773,047	-	39,773,047
Interest	488,215	-	488,215
Bond Proceeds	-	-	-
Grants/Subsidies	423,644	-	423,644
Other	39,006	-	39,006
Sale or redemption of investments	-	1,160,000	1,160,000
Total receipts	<u>40,723,912</u>	<u>1,160,000</u>	<u>41,883,912</u>
Disbursements			
Operating expenses	-	29,743,542	29,743,542
Purchase of investments	-	3,373,935	3,373,935
Transfers pursuant to bond ordinances	40,723,912	(32,245,082)	8,478,830
Other	-	61,659	61,659
Total disbursements	<u>40,723,912</u>	<u>934,054</u>	<u>41,657,966</u>
Cash balance, November 30, 2011	<u>\$ -</u>	<u>\$ 680,383</u>	<u>\$ 680,383</u>

LAKE COUNTY PUBLIC WORKS DEPARTMENT

WATERWORKS AND SEWERAGE SYSTEMS FUND

SERIES ORDINANCE SYSTEM RESERVED FOR RESTRICTED ACCOUNTS

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

For the Year Ended November 30, 2011

	Restricted Accounts								
	Series Ordinance					Subordinate Ordinance			
	Interest Account	Bond Fund Accounts	Bond Reserve Account	Depreciation, Extension and Improvement Account	Combined Total	Subordinate Interest Account	Subordinate Bond Account	Subordinate Reserve Account	Combined Total
Cash balance, December 1, 2010	\$ 96,665	\$ 12,186	\$ 471,203	\$ 9,836	\$ 589,890	\$ -	\$ -	\$ 9,882	\$ 9,882
Receipts									
Bond Proceeds	-				-				-
Sale or redemption of investments	900,000	2,700,000	4,800,000	34,010,000	42,410,000	-	-	280,000	280,000
Contributions - Special Service Area #9 & 14	200,831	542,987	-	13,935	757,753	-	-	-	-
Transfers pursuant to bond ordinances	1,395,402	2,980,000	-	3,800,000	8,175,402	128,428	150,000	-	278,428
Grants/Subsidies	-	-	-	213,221	213,221	-	-	-	-
Total receipts	2,496,233	6,222,987	4,800,000	38,037,156	51,556,377	128,428	150,000	280,000	558,428
Disbursements									
Purchase of investments	976,238	2,569,827	4,880,000	37,120,000	45,546,065	-	-	280,000	280,000
Principal due December 1, 2011	-	3,660,000	-	-	3,660,000	-	150,000	-	150,000
Interest	1,611,202	-	-	-	1,611,202	128,428	-	-	128,428
Capital outlay expenditures	-	-	-	923,496	923,496	-	-	-	-
Total disbursements	2,587,440	6,229,827	4,880,000	38,043,496	51,740,763	128,428	150,000	280,000	558,428
Cash balance, November 30, 2011	\$ 5,458	\$ 5,346	\$ 391,203	\$ 3,497	\$ 405,504	\$ -	\$ -	\$ 9,882	\$ 9,882

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

REVENUE BONDS PAYABLE
For the Year Ended November 30, 2011

	Interest Rates (Percent)	Amount of Original Issue	Redemptions Through November 30, 2011	Bonds Outstanding November 30, 2011
Series A of 2003	5.20 - 5.50 %	\$ 20,790,000	\$ 20,790,000	\$ -
Series B of 2003	2.25 - 4.125	3,405,000	1,105,000	2,300,000
Series C of 2003	4.55 - 5.65	17,649,109	-	17,649,109
Series 2005S-1	3.75 - 4.50	1,000,000	260,000	740,000
Series 2005S-2	5.20 - 5.50	1,000,000	430,000	570,000
2006A Refunding bonds	4.00	6,700,000	1,985,000	4,715,000
2006B Crossover refunding bonds	4.25 - 4.50	17,170,000	-	17,170,000
Series S of 2009	2.70 - 6.60	1,220,000	25,000	1,195,000
Series A of 2010	2.00 - 5.45	<u>20,000,000</u>	<u>-</u>	<u>20,000,000</u>
TOTAL REVENUE BONDS		<u>\$ 88,934,109</u>	<u>\$ 24,595,000</u>	<u>\$ 64,339,109</u>

Note - Interest on all bonds is payable semiannually on June 1 and December 1.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

SUMMARY OF REVENUE BOND DEBT SERVICE REQUIREMENTS TO MATURITY - PRINCIPAL
For the Year Ended November 30, 2011

Maturing as follows	Series A of 2003	Series B of 2003	Series C of 2003	Series S-2 of 2005	Series S-1 of 2005	Series 2006A	Series 2006B	Series S of 2009	Series A of 2010	Total
<u>Year Ending November 30,</u>										
2012	\$ -	\$ 2,300,000	\$ -	\$ 85,000	\$ 45,000	\$ 775,000	\$ -	\$ 25,000	\$ -	\$ 3,230,000
2013	-	-	1,578,150	90,000	45,000	760,000	-	25,000	-	2,498,150
2014	-	-	1,393,848	90,000	50,000	755,000	1,550,000	30,000	160,000	4,028,848
2015	-	-	1,315,368	95,000	50,000	790,000	1,615,000	30,000	165,000	4,060,368
2016	-	-	1,232,976	105,000	50,000	830,000	1,690,000	30,000	170,000	4,107,976
2017	-	-	1,149,888	105,000	55,000	805,000	1,765,000	30,000	175,000	4,084,888
2018	-	-	1,419,035	-	55,000	-	2,615,000	30,000	200,000	4,319,035
2019	-	-	1,251,810	-	60,000	-	2,555,000	30,000	300,000	4,196,810
2020	-	-	1,166,430	-	60,000	-	2,665,000	35,000	350,000	4,276,430
2021	-	-	7,141,604	-	65,000	-	2,715,000	35,000	400,000	10,356,604
2022	-	-	-	-	65,000	-	-	35,000	1,080,000	1,180,000
2023	-	-	-	-	70,000	-	-	35,000	1,000,000	1,105,000
2024	-	-	-	-	70,000	-	-	40,000	1,000,000	1,110,000
2025	-	-	-	-	-	-	-	40,000	1,000,000	1,040,000
2026	-	-	-	-	-	-	-	40,000	1,000,000	1,040,000
2027	-	-	-	-	-	-	-	40,000	1,000,000	1,040,000
2028	-	-	-	-	-	-	-	45,000	1,000,000	1,045,000
2029	-	-	-	-	-	-	-	45,000	1,250,000	1,295,000
2030	-	-	-	-	-	-	-	45,000	1,250,000	1,295,000
2031	-	-	-	-	-	-	-	50,000	1,250,000	1,300,000
2032	-	-	-	-	-	-	-	50,000	1,500,000	1,550,000
2033	-	-	-	-	-	-	-	55,000	1,750,000	1,805,000
2034	-	-	-	-	-	-	-	55,000	2,000,000	2,055,000
2035	-	-	-	-	-	-	-	60,000	2,000,000	2,060,000
2036	-	-	-	-	-	-	-	60,000	-	60,000
2037	-	-	-	-	-	-	-	65,000	-	65,000
2038	-	-	-	-	-	-	-	65,000	-	65,000
2039	-	-	-	-	-	-	-	70,000	-	70,000
Totals	\$ -	\$ 2,300,000	\$ 17,649,109	\$ 570,000	\$ 740,000	\$ 4,715,000	\$ 17,170,000	\$ 1,195,000	\$ 20,000,000	\$ 64,339,109

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
WATERWORKS AND SEWERAGE SYSTEMS FUND**

SUMMARY OF REVENUE BOND DEBT SERVICE REQUIREMENTS TO MATURITY - INTEREST
For the Year Ended November 30, 2011

Maturing as follows	Series A of 2003	Series B of 2003	Series C of 2003	Series S-2 of 2005	Series S-1 of 2005	2006A Bonds	2006B Bonds	Series S of 2009	Series A of 2010	Total
<u>Year Ending November 30,</u>										
2012	\$ -	\$ 94,874	\$ -	\$ 22,080	\$ 30,625	\$ 188,600	\$ 749,606	\$ 70,360	\$ 983,635	\$ 2,139,780
2013	-	-	921,850	18,850	28,938	157,600	749,607	69,548	983,635	2,930,028
2014	-	-	1,006,152	15,430	27,250	127,200	749,606	68,610	983,635	2,977,883
2015	-	-	1,084,632	12,010	25,350	97,000	679,856	67,335	980,435	2,946,618
2016	-	-	1,167,024	8,400	23,350	65,400	607,181	66,015	976,475	2,913,845
2017	-	-	1,250,112	4,200	21,350	32,200	531,131	64,635	972,225	2,875,853
2018	-	-	1,755,965	-	19,122	-	451,706	63,195	966,975	3,256,963
2019	-	-	1,748,190	-	16,865	-	340,569	61,695	960,375	3,127,694
2020	-	-	1,833,570	-	14,377	-	231,981	60,120	949,575	3,089,623
2021	-	-	1,913,280	-	11,858	-	115,388	58,283	936,275	3,035,084
2022	-	-	-	-	9,095	-	-	56,445	920,275	985,815
2023	-	-	-	-	6,300	-	-	54,450	874,375	935,125
2024	-	-	-	-	3,150	-	-	52,455	830,375	885,980
2025	-	-	-	-	-	-	-	50,175	784,875	835,050
2026	-	-	-	-	-	-	-	47,895	737,875	785,770
2027	-	-	-	-	-	-	-	45,495	689,375	734,870
2028	-	-	-	-	-	-	-	43,095	639,375	682,470
2029	-	-	-	-	-	-	-	40,395	587,875	628,270
2030	-	-	-	-	-	-	-	37,695	523,500	561,195
2031	-	-	-	-	-	-	-	34,770	459,125	493,895
2032	-	-	-	-	-	-	-	31,520	392,875	424,395
2033	-	-	-	-	-	-	-	28,270	313,375	341,645
2034	-	-	-	-	-	-	-	24,695	218,000	242,695
2035	-	-	-	-	-	-	-	21,120	109,000	130,120
2036	-	-	-	-	-	-	-	17,160	-	17,160
2037	-	-	-	-	-	-	-	13,200	-	13,200
2038	-	-	-	-	-	-	-	8,910	-	8,910
2039	-	-	-	-	-	-	-	4,620	-	4,620
Totals	\$ -	\$ 94,874	\$ 12,680,775	\$ 80,970	\$ 237,630	\$ 668,000	\$ 5,206,631	\$ 1,262,161	\$ 17,773,515	\$ 38,004,556

(A) Crossover bonds with interest paid from escrow.