

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

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

November 30, 2011 and 2010

CONTENTS

| | Page |
|---|-------|
| Independent Accountants' Report on Applying Agreed-Upon Procedures | 3 - 4 |
| Attachment I - Procedures and Results | 5 |
| Attachment II - Statements of Revenues and Expenses | 6 - 7 |
| Attachment III - Summary of Significant Accounting Policies and Assumptions | 8 - 9 |
| Attachment IV - Capital Improvements Plan | 10 |
| Attachment V - Capital Expenditures | 11 |

MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures contained in Attachment I to this report, which were agreed to by the management of Lake County Public Works Department, solely to assist you in evaluating the validity of the accompanying statements of revenues and expenses for the years ended November 30, 2011 and 2010 for the Northeast Central Wholesale Sewer System. The Lake County Public Works Department's management is responsible for the statements of revenues and expenses. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the department specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

The attached statements of revenues and expenses were not prepared in accordance with accounting principles generally accepted in the United States of America and only represent revenues and expenses associated with the Northeast Central Wholesale Sewer System's operations. They do not include all revenue and expense categories as shown in the Department's fiscal year 2011 and 2010 audited financial statements. The statements also include cash flow and replacement items that are not reported as expenses in these statements.

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

(Continued)

To the Public Works Committee
Lake County Public Works Department
Northeast Central Wholesale Sewer System

(Continued)

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

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

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Deerfield, Illinois
July 30, 2012

Lake County Public Works Department
Northeast Central Wholesale Sewer System
Years Ended November 30, 2011 and 2010

Procedures and Results

1. Miller, Cooper & Co., Ltd. assisted management with creating the statements of revenues and expenses on the accrual basis of accounting to include the following classifications of financial items for the Northeast Central Wholesale Sewer System for the years ended November 30, 2011 and 2010.
 - a. Operating revenues
 - b. Operating expenses
 - c. Non-operating revenues and expenses
 - d. Capital contributions, replacement and cash outflows, and capital improvements

Refer to Attachment II to this report for further details.

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

No exceptions were noted during the application of the agreed-upon procedures.

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

Refer to Attachment II to this report.

4. Verified that amounts used to complete procedure 1 were allocated and derived from the audited information of the Lake County Public Works Department Waterworks and Sewerage Systems Fund as a whole for the years ended November 30, 2011 and 2010.

No exceptions were noted.

STATEMENTS OF REVENUES AND EXPENSES

Lake County Public Works Department
Northeast Central Wholesale Sewer System
 STATEMENTS OF REVENUES AND EXPENSES
Years Ended November 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| OPERATING REVENUES | | |
| Wholesale sewer charges | \$ 3,082,342 | \$ 3,228,005 |
| OPERATING EXPENSES | | |
| Personnel services | | |
| Salaries and wages | 159,063 | 175,987 |
| Pension - IMRF and social security | 29,758 | 29,797 |
| Total personnel services | <u>188,821</u> | <u>205,784</u> |
| Commodities | | |
| Office supplies and maintenance | 3,092 | 2,380 |
| Housekeeping supplies | 1,205 | 703 |
| Gasoline | 9,812 | 7,177 |
| Buildings and grounds supplies | 869 | 107 |
| Operational supplies | 38,165 | 3,208 |
| Uniforms | 916 | 1,355 |
| Medical supplies | 104 | 256 |
| Non capitalized equipment and improvements | 11,381 | 14,985 |
| Miscellaneous | 100 | 137 |
| Total commodities | <u>65,644</u> | <u>30,308</u> |
| Contractual | | |
| Insurance | | |
| Employees' life, health and dental | 37,584 | 50,821 |
| Unemployment and worker's compensation | 28,806 | 33,607 |
| Miscellaneous benefits | 2,211 | 2,573 |
| Gas (utility) | 1,766 | 1,910 |
| Electricity | 44,262 | 38,183 |
| Telephone and telemetry | 6,916 | 8,387 |
| Wholesale sewage treatment | 2,415,818 | 2,398,879 |
| Vehicle maintenance | 6,254 | 6,830 |
| Buildings and equipment maintenance | 10,269 | 6,997 |
| Equipment rental | 391 | 1,009 |
| Disposal service | 833 | 1,138 |
| Miscellaneous | 74,031 | 79,583 |
| Total contractual | <u>2,629,141</u> | <u>2,629,917</u> |
| Total operating expenses | <u>2,883,606</u> | <u>2,866,009</u> |

(Continued)

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

Lake County Public Works Department
Northeast Central Wholesale Sewer System
 STATEMENTS OF REVENUES AND EXPENSES (Continued)
Years Ended November 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Operating income - excluding depreciation | \$ <u>198,736</u> | \$ <u>361,996</u> |
| Income before contributions, transfers, and other items | 198,736 | 361,996 |
| ADJUSTMENTS | | |
| Capital contributions - connection fees | 279,580 | 115,183 |
| Forecasted annual improvement costs | (582,500) * | (582,500) |
| Capital expenditures | <u>(17,252) **</u> | <u>(33,018)</u> |
| INCREASE (DECREASE) TO RESERVE FUND | <u>\$ (121,436)</u> | <u>\$ (138,339)</u> |

* Refer to Attachment IV for details related to this amount

** Refer to Attachment V for details related to these amounts

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

Lake County Public Works Department
Northeast Central Wholesale Sewer System
Years Ended November 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

1. Nature of Statement of Income and Expenses

The statements of revenues and expenses (statements) are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. The revenues and expenses presented here are allocated to the Northeast Central Wholesale Sewer System from the Department's fiscal 2011 and 2010 audited financial statements dated May 14, 2012 and May 20, 2011, respectively.

2. Reconciling Items

The attached statements were not prepared in accordance with accounting principles generally accepted in the United States of America and only represent revenues and expenses associated with the Northeast Central Wholesale Sewer System's operations and do not include all revenue and expense categories as shown in the Department's fiscal year 2011 and 2010 audited financial statements. Items not presented in attached statements include:

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

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

Lake County Public Works Department
Northeast Central Wholesale Sewer System
Years Ended November 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

(Continued)

3. Items Specific to the Northeast Central Wholesale Sewer System

Annual Infrastructure Refurbishment/Replacement Costs

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

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

4. Capital Expenditures

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

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

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

Note 1 - Based on a 20 year repayment term.

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

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

| Project Description | 2011 | 2010 |
|--|------------------|------------------|
| Administration building expansion | \$ 10,969 | \$ 21,959 |
| Motor vehicles | 572 | 6,958 |
| Laboratory equipment | 2,228 | 1,264 |
| Construction and maintenance equipment | 3,483 | 2,837 |
| | | |
| Total Northeast Central capital expenditures | \$ <u>17,252</u> | \$ <u>33,018</u> |

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