

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

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

November 30, 2011 and 2010

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MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Public Works Committee
Lake County Public Works Department
Southeast 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 Southeast 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 Southeast 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 statements 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
Southeast 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
Southeast 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 Southeast 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 Southeast 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 Southeast 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
Southeast 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	\$ 7,448,386	\$ 8,468,467
Miscellaneous	300	-
Total operating revenues	<u>7,448,686</u>	<u>8,468,467</u>
OPERATING EXPENSES		
Personnel services		
Salaries and wages	1,082,638	1,097,807
Pension - IMRF and social security	200,035	188,639
Total personnel services	<u>1,282,673</u>	<u>1,286,446</u>
Commodities		
Office supplies and maintenance	11,645	16,296
Housekeeping supplies	5,044	4,721
Gasoline	39,889	33,420
Buildings and grounds supplies	8,754	8,222
Operational supplies	165,950	124,606
Chemical supplies	120,622	126,277
Uniforms	6,226	6,447
Medical supplies	1,250	1,884
Non capitalized equipment and improvements	59,468	72,167
Miscellaneous	492	461
Total commodities	<u>419,340</u>	<u>394,501</u>
Contractual		
Insurance		
Employees' life, health and dental	307,708	338,785
Unemployment and worker's compensation	124,825	148,830
Miscellaneous benefits	11,334	12,597
Gas (utility)	83,856	75,278
Electricity	652,400	669,495
Telephone and telemetry	14,684	14,789
Vehicle maintenance	29,403	34,517
Buildings and equipment maintenance	117,069	100,358
Equipment rental	58,657	39,478
Disposal service	179,809	167,209
Miscellaneous	392,830	410,001
Total contractual	<u>1,972,575</u>	<u>2,011,337</u>
Total operating expenses	<u>3,674,588</u>	<u>3,692,284</u>

(Continued)

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

Lake County Public Works Department
Southeast 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	\$ 3,774,098	\$ 4,776,183
NON- OPERATING REVENUES (EXPENSES)		
Interest expense	(94,532)	(207,970)
Amortization of bond issuance costs	(27,563)	(27,563)
Total non-operating revenues (expenses)	<u>(122,095)</u>	<u>(235,533)</u>
Income before contributions, transfers, and other items	<u>3,652,003</u>	<u>4,540,650</u>
ADJUSTMENTS		
Capital contributions - connection fees	206,756	727,890
Capital expenditures	(265,459) **	(802,320)
Forecasted annual improvement costs	<u>(1,892,896) *</u>	<u>(1,892,896)</u>
INCREASE (DECREASE) TO RESERVE FUND	<u>\$ 1,700,404</u>	<u>\$ 2,573,324</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
Southeast 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 Southeast 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 Southeast 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 Southeast Wholesale Sewer System due to the procedures agreed upon by the Department, which required that the financial statements presented here only report similar revenues and expenses, as used in designing the Department's current rate structure during the Test Year 2006 Water and Sewer Rate Studies.

3. Items Specific to the Southeast Wholesale Sewer System

Interest Expense and Issuance Costs

The Revenue Refunding Bond Series of 2003 A was issued to complete a partial in-substance defeasance of the outstanding Revenue Bond Series A 1993 bonds related to the construction of the Des Plaines River/New Century Town (DPR/NCT) treatment plants which serve the Southeast and South Central Regions. The associated interest expense and issuance costs were allocated to the Southeast Wholesale Sewer System based on the proportionate share of equivalent units of volume sent to the treatment plants related to the Southeast Wholesale Sewer System customers.

Lake County Public Works Department
Southeast 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 Southeast Wholesale Sewer System (Continued)

Annual Infrastructure Refurbishment/Replacement Costs

As part of this agreed-upon procedure engagement, the Department determined the costs associated with relining and refurbishing the Southeast Wholesale Sewer System's interceptor facilities for inclusion in the statements. 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 Southeast 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 Southeast Wholesale Sewer System.

4. Annual Costs Associated with Ten-Year Capital Improvements Plan

The Department has included an analysis forecasting the amounts that the Southeast Wholesale Sewer System customers' user fees will need to recover on an annual basis to fund its ten-year capital improvements plan. Department management determined that it was necessary to include the analysis in this report to inform the readers of the potential impact that these projects may have on the annual revenue the Department will be required to collect from the Southeast Wholesale Sewer System customers in subsequent periods.

Lake County Public Works Department
Southeast Wholesale Sewer System
Years ended November 30, 2011 and 2010

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

4. Annual Costs Associated with Ten-Year Capital Improvements Plan (Continued)

The Department has identified two projects in the Southeast Region estimated to be completed by the year 2016:

- > Des Plaines River WWRf Refurbishment - \$34,190,000

	<u>Year</u>	<u>Amount</u>
Phase I	2011	\$ 1,210,000
Phase II	2012	12,430,000
Phase III	2013	8,500,000
Phase IV	2014	<u>12,050,000</u>
		<u>\$ 34,190,000</u>

- > Southeast Interceptor Improvements

<u>Year</u>	<u>Amount</u>
2011	<u>\$ 11,189,170</u>

The total estimated cost of the projects is \$35,590,010, of which approximately 79% of the total costs are related to serving the Southeast Wholesale Sewer System customers. To further isolate the costs that will be recovered through user fees, it is estimated 100% of the total costs related to serving the Southeast Wholesale Sewer System Customers will be to replace existing infrastructure. The total portion of the above projects that will be recovered through Southeast Wholesale Sewer System customer user fees is \$37,857,910.

Lake County Public Works Department
Southeast Wholesale Sewer System
Years ended November 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

(Continued)

4. Annual Costs Associated with Ten-Year Capital Improvements Plan (Continued)

The forecasted Des Plaines River WWRF capital improvements plan presents, to the best of the Department's knowledge and belief, the Department's expected capital projects to occur between the years 2011 through 2020 related to the Southeast Wholesale Sewer System. Accordingly, the forecasted information reflects the Department's judgment, based on present circumstances, of the expected set of conditions and its expected course of action. The assumptions disclosed herein are those that the Department believes are significant to Attachments IV and V. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Refer to Attachments IV and V to this report for further details.

5. 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 Southeast 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 to this report for further details.

Lake County Public Works Department
Southeast Wholesale Sewer System
 CAPITAL IMPROVEMENTS PLAN

Project Description	Total Cost	Percent Wholesale	Percent Retail	Percent Replacement	Percent Expansion
Des Plaines River WWRF Refurbishment Phase I	\$ 1,210,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase II	12,430,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase III	8,500,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase IV	12,050,000	78%	22%	100%	0%
Southeast Interceptor Improvement	<u>11,189,710</u>	100%	0%	100%	0%
Total project costs	<u>\$ 45,379,710</u>				
Total project costs related to wholesale customers to be recovered through wholesale rates	<u>\$ 37,857,910</u>				
<u>Annual Improvement Cost</u>					
Forecasted annual capital improvement costs			\$ 1,892,896		

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

Lake County Public Works Department
Southeast Wholesale Sewer System
 CAPITAL EXPENDITURES

Project Description	2011	2010
Administration building expansion	\$ 44,529	\$ 98,781
DPR WWTP Blower and Sludge Pres	-	1,500
DPR WRF polymer feed system upgrades	-	(10,905)
Sanitary Sewer Rehab 2011	118,472	-
Aptakistic Creek SB Erosion	4,698	-
Portwine Road LS main force	50,081	461,786
Deerfield Road F. main relocation	22,173	194,408
Ela lift station improvements	-	7,000
Motor vehicles	2,324	31,301
Construction and maintenance equipment	14,137	12,763
Laboratory equipment	9,045	5,686
Total Southeast capital expenditures	\$ 265,459	\$ 802,320

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