

**Lake County Public Works Department
Northwest 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
Northwest Wholesale Sewer System
Libertyville, Illinois

We have performed the procedures contained in Attachment I to this report, which were agreed to by the management of Lake County Public Works Department, solely to assist you in evaluating the validity of the accompanying statements of revenues and expenses for the years ended November 30, 2011 and 2010 for the Northwest 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 Northwest 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
Northwest 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
Northwest Wholesale Sewer System
Years Ended November 30, 2011 and 2010

Procedures and Results

1. Miller, Cooper & Co., Ltd. assisted management with creating the statement of revenues and expenses on the accrual basis of accounting to include the following classifications of financial items for the Northwest 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 Northwest Wholesale Sewer System. Based on this review, it was determined that the methods and assumptions used by the Department for tracking and reporting revenues and expenses were reasonable and consistent in nature.

No exceptions were noted during 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 Northwest Wholesale Sewer System for inclusion in the statements of income and expenses.

Refer to Attachment II to this report.

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

No exceptions were noted.

STATEMENTS OF REVENUES AND EXPENSES

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

	2011	2010
OPERATING REVENUES		
Wholesale sewer charges	\$ 5,809,040	\$ 5,894,357
OPERATING EXPENSES		
Personnel services		
Salaries and wages	421,411	409,725
Pension - IMRF and social security	78,172	70,824
Total personnel services	499,583	480,549
Commodities		
Office supplies and maintenance	6,818	5,419
Housekeeping supplies	7,069	9,149
Gasoline	19,337	13,373
Buildings and grounds supplies	8,571	8,534
Operational supplies	50,587	30,909
Chemical supplies	209	676
Uniforms	2,768	2,657
Medical supplies	536	740
Non capitalized equipment and improvements	26,621	27,113
Miscellaneous	512	978
Total commodities	123,028	99,548
Contractual		
Insurance		
Employees' life, health and dental	116,299	112,751
Unemployment and worker's compensation	62,412	57,612
Miscellaneous benefits	6,064	4,650
Gas (utility)	16,779	15,056
Electricity	80,520	81,456
Telephone and telemetry	16,875	17,229
Wholesale sewerage treatment	3,693,168	3,769,683
Vehicle maintenance	12,883	11,925
Buildings and equipment maintenance	66,277	43,594
Equipment rental	846	822
Disposal service	1,911	2,695
Miscellaneous	205,033	269,609
Total contractual	4,279,067	4,387,082
Total operating expenses	4,901,678	4,967,179

(Continued)

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

Lake County Public Works Department
Northwest 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>907,362</u>	\$ <u>927,178</u>
Income before contributions, transfers, and other items	907,362	927,178
ADJUSTMENTS		
Capital contributions - connection fees	89,670	80,578
Forecasted annual improvement costs	(685,466) *	(685,466)
Capital expenditures	<u>(40,095) **</u>	<u>(74,397)</u>
 INCREASE (DECREASE) TO RESERVE FUND	 \$ <u><u>271,471</u></u>	 \$ <u><u>247,893</u></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
Northwest Wholesale Sewer System
Years Ended November 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

1. Nature of Statement of Revenues 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 Northwest 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 Northwest 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 Northwest Wholesale Sewer System due to the procedures agreed upon by the Department, which required that the financial statements presented here only report similar revenues and expenses, as used in designing the Department's current rate structure during the Test Year 2006 Water and Sewer Rate Studies.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

(Continued)

3. Items Specific to the Northwest Wholesale Sewer System

Annual Infrastructure Refurbishment/Replacement Costs

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

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

4. Capital Expenditures

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

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

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

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

Lake County Public Works Department
Northwest Wholesale Sewer System
CAPITAL EXPENDITURES

Project Description	2011	2010
Administration building expansion	\$ 22,241	\$ 39,588
PW- NW Interceptor improvement	5,115	14,871
Construction and maintenance equipment	7,061	5,115
Laboratory equipment	4,517	2,279
Motor vehicles	1,161	12,544
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Total Northwest capital expenditures	\$ 40,095	\$ 74,397
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See independent accountants' report on applying agreed-upon procedures.