

**WATER AND SEWERAGE SYSTEM OF
DUPAGE COUNTY, ILLINOIS
An Enterprise Fund of DuPage County, Illinois**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended November 30, 2011

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WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

An Enterprise Fund of DuPage County, Illinois

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chairman and Members
of the County Board
DuPage County, Illinois

We have audited the accompanying statement of net assets of the Water and Sewerage System of DuPage County, Illinois (System), an enterprise fund of DuPage County, Illinois, as of November 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Water and Sewerage System of DuPage County and are not intended to present fairly the financial position of DuPage 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 previously present fairly, in all material respects, the financial position of the Water and Sewerage System of DuPage County, Illinois as of November 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America as they apply to enterprise funds of governmental entities.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents be presented to supplement the financial statements. Such information, although not 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.

Honorable Chairman and Members
of the County Board
DuPage County, Illinois

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water and Sewerage System of DuPage County's financial statements. The supplementary information as listed 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. The other information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Vinchow Kraus, LLP

Oak Brook, Illinois
April 9, 2012

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
November 30, 2011**

The Water and Sewerage System of DuPage County, Illinois (the System) began operations in 1962. The System consists of sewage collection and treatment facilities and water pumping and distribution facilities in certain areas of DuPage County. The System's principal activity is sewage treatment with some water pumping and distribution systems. The System consists of a single proprietary type fund using full accrual accounting to report operations.

GENERAL FINANCIAL HIGHLIGHTS

The following is a discussion and analysis of The Water and Sewerage System of DuPage County, Illinois' financial statements for the fiscal year ending November 30, 2011.

- For fiscal year 2011, user charges and other revenues of the System totaled \$19,997,298 and expenses were \$20,975,745 resulting in total expenses exceeding total revenues by \$978,447.
- Cash receipts exceeded cash disbursements by \$123,280 in the Operation and Maintenance Account.

In 2011, an independent consultant was commissioned to perform a wastewater and water rate study analysis. The purpose of the study was to determine the required rate structure for the System. The study was submitted by the independent consultant and approved by the Public Works Committee in late 2011. As a result of the study, the first in a series of water rate increases will take effect beginning with the March 2012 customer bills. In addition, water rates will increase each successive year from 2013 through 2015. The current sewer, sewer maintenance, and base billing rates will remain in effect until January 2013. Beginning with the March 2013 customer bills, these rates will increase one time and remain in effect until the end of 2015. The water commission buy-in fee and the National Pollutant Discharge Elimination System (NPDES) fee will not be increased and will remain constant over the four year period.

The System completed the following construction projects in 2011: Replaced approximately 225 feet of sanitary sewer in Region 9 East, completed improvements to the Tri-State Water Distribution System, and replaced two bar screens at the Knollwood Sewage Treatment Facility. There are a number of large ongoing projects, including replace the aeration blowers at the Knollwood Sewage Treatment Facility, rehabilitate the secondary effluent clarifier at the Woodridge Green Valley Sewage Treatment Facility, build a pressure adjusting station in Glen Ellyn Heights, improvements to the York Township Water System, build a metering station at Steeple Run, and build a vector dump station and salt storage facility.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

November 30, 2011

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements which are comprised of the Financial Statements and Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic Financial Statements themselves.

Financial Statements

The Financial Statements are designed to provide readers with a broad overview of the System's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the System's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing the changes in net assets occurring during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected water sales and amounts due to vendors).

Since the System's primary function is to provide water delivery and sewage collection to its customers and to recover all costs through user fees and charges, the financial statements only include business-type activities.

The accounts of the System are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because the System provides water delivery and sewage treatment and recovers these costs through user fees and charges, the System's funds are accounted for as an enterprise fund type of the proprietary fund group.

The Financial Statements can be found on pages 11 to 15.

Notes to Financial Statements

The Notes provide additional information that is essential to a full understanding of the financial data provided in the Financial Statements. The Notes to the Financial Statements can be found on pages 16 to 30 of this report.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
November 30, 2011**

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and other information. This information can be found on pages 31 to 37.

Statement of Net Assets

The following is a summary of the System's Statement of Net Assets as of November 30, 2011 and 2010.

Statement of Net Assets Summary

	November 30,	
	2011	2010
Current Assets	\$ 12,075,522	\$ 11,779,815
Capital Assets	88,740,802	89,852,476
Restricted and Other Assets	7,214,358	9,211,966
	\$108,030,682	\$110,844,257
Current Liabilities	4,889,049	5,101,103
Long-term Liabilities	18,267,800	19,810,181
Total Liabilities	23,156,849	24,911,284
Investment in Capital Assets, Net of Related Debt	\$ 74,764,812	\$ 78,463,736
Restricted for Debt Service	2,329,517	2,293,027
Unrestricted Net Assets	7,779,504	5,176,210
Total Net Assets	\$ 84,873,833	\$ 85,932,973

When taken together, the decrease in Capital Assets and Restricted and Other Assets is due primarily to depreciation expense charged for the year.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
November 30, 2011**

Statement of Revenue and Expenses Summary

**Summary of Revenues and Expenses
For Fiscal Years 2011 and 2010**

	November 30,	
	2011	2010
Revenues:		
User Charges	\$12,228,029	\$11,444,152
Miscellaneous Income	2,107,376	2,001,070
Contributions	0	70,510
Administrative Fees	1,148,142	1,086,780
Connection Charges	256,528	215,151
Total Revenue	<u>15,740,075</u>	<u>14,817,663</u>
Pass Through Revenue		
Darien Water Charges	3,832,004	3,856,338
Glen Ellyn Sewer Charges	425,219	387,873
Total Pass Through Revenue	<u>4,257,223</u>	<u>4,244,211</u>
Expenses:		
Salaries & Employee Benefits	7,113,924	7,027,290
Commodities	1,597,465	1,442,315
Contractual	3,842,805	3,722,607
Depreciation and Amortization	3,738,980	3,788,028
Interest and Other	473,081	1,064,704
Total Expenses	<u>16,766,255</u>	<u>17,044,944</u>
Pass Through Expenses		
Darien Water Payments	3,832,004	3,856,338
Glen Ellyn Sewer Payments	377,486	355,766
Total Pass Through Expenses	<u>4,209,490</u>	<u>4,212,104</u>
Net Loss	(978,447)	(2,195,174)

The following is a discussion of the variances between 2011 and 2010.

Revenues

Compared to 2010, user charges for sewerage service increased 4%. The increase is due to an increase in sewer rates from \$2.16 per thousand gallons to \$2.22 per thousand gallons.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
November 30, 2011**

Compared to 2010, user charges for water service increased by 27%. A large portion of the increase in user charges is related to an increase in the water rates by over 21% on average.

Miscellaneous Income increased by 5.3%. The System provides construction related services for other departments within the county. The department bills the other departments for salaries plus a multiplier to cover benefits. During 2011, the department provided significantly more of these services.

Administrative fees increased from 2010 to 2011. Based on recommendations from the 2009 rate study, a \$2.50 administrative fee was eliminated and a new base charge fee of \$1.89 for each meter read and \$3.56 for each bill produced was instituted for five of the six billing periods in 2010. The increase for 2011 is the result of the new base charge in effect for all six billing periods.

New user connection charges increased slightly in 2011. Connection charges had been on the decline since 2005.

There were no Contributions of property during 2011.

Expenses

The increase in Salaries and Employee Benefits is the result of an increase in health insurance premiums.

Commodities expenses increased by 10.75%. The increase is due to an increase in fuel expense due to the rising fuel prices.

Contractual expenses increased by 3.13%. A large portion of the increase is due to the increase in water rates for the water the System purchases from the DuPage Water Commission. The cost per thousand gallons of water increased from \$1.84 to \$2.04 in May, 2011. Other areas of increase were sludge removal and natural gas purchases.

Interest and Other Expenses declined by 56%. In 2011, the System allocated \$187,786 of bond interest to fixed assets and construction work in progress. In 2010, no interest was allocated to fixed assets and construction work in progress. In addition, the System sustained a \$351,128 loss on the disposal of assets. The majority of this loss resulted from the transfer of the Glen Ellyn Woods SSA #12. In 2011, there was a \$1,900 gain on the disposal of equipment.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
November 30, 2011**

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The System's investment in capital assets as of November 30, 2011 is summarized below, net of accumulated depreciation.

Land and Land Improvements	\$ 1,532,945
Sewage System	68,979,048
Water System	11,578,275
Other Property, Plant and Equipment	725,588
Net Intangible Assets	3,084,062
Construction in Progress	<u>2,840,884</u>
Total Net Capital Assets	<u>\$ 88,740,802</u>

Total non-contributed additions for 2011 are \$1,212,268; there were no contributed additions for 2011. The total amount of disposed assets in 2011 is \$80,725. Additional information on the System's capital assets can be found in Note 3 of the financial statements.

Long Term Debt

The System has two outstanding Revenue Bond issues and an outstanding loan from the Illinois Environmental Protection Agency. The Revenue Bonds were issued in 2008 to advance refund and refinance outstanding bonds from 2003 and also provided \$14.9M in new money to fund its capital improvement program. The System also has an outstanding obligation to the DuPage Water Commission for the buy in fee which is a membership requirement of the commission. The following is a summary of the outstanding long-term debt of the System as of November 30, 2011.

Series 2008A	\$ 6,900,000
Series 2008B	6,890,000
IEPA Loan	2,122,614
DuPage Water Commission Payable	2,601,895
Accrued Absences payable	1,538,925
Other post employment benefit payable	3,176
Net pension obligation payable	<u>124,154</u>
Total Long Term Debt	<u>\$20,180,764</u>

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

November 30, 2011

Additional information on the Systems long term debt can be found in Note 4 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The System is supported solely by user charges and other miscellaneous income. Miscellaneous income includes connection revenue, septic revenue, cell tower leases, and interest income.

The current economic conditions, if continued in 2012, will have an impact on connection revenue, interest income and user charges.

The connection revenue forecast for 2012 is rather conservative and is based on local economic conditions. Several residential developments that paid connection charges in previous years have halted construction or the newly constructed units remain vacant. It is expected that as the activity with these developments resumes, new connection fees will begin to increase soon after. Interest income is expected to be at or near 2011 levels which is significantly less than previous years.

User charges may be influenced by two factors, 1.) Reduction in consumption due to foreclosures and other impacts from an economic downturn and, 2.) Reduction in consumption resulting from water conservation by customers experiencing an increase in water rates.

The System will be converting one of its remaining three well water systems to Lake Michigan water in 2012. This conversion will have an impact on the operational expenses for the water system as the System will begin paying for Lake Michigan water for these systems. In addition, the System will incur costs to decommission existing plant facilities.

A rate study was 2011 to set rates that will allow the System to balance revenue with expenses over the next four years. User rates for the sewer system will hold steady in 2012. However, user rates for the water system will increase about 20% in 2012. The System will consider a meter testing and replacement program and additional system repairs during 2012 to further mitigate water loss.

The System anticipates an increase in retirements from 2012 through 2014. This increase will have a direct impact on cash flows. DuPage County has an employee retention program that provides for a retention payment at retirement for eligible employees. In addition to this retention payment, employees receive a payout for their accrued vacation and sick time. As reported above, the System's accrued absences payable is the total liability for employee's accrued sick time at the end of 2011.

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**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

November 30, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Water and Sewerage System's financial results and position for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional information may be addressed to the Financial Services Administrator at 7900 S. Route 53, Woodridge, IL 60517.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENT OF NET ASSETS
As of November 30, 2011

ASSETS

CURRENT ASSETS

Cash	
Operation and maintenance account	\$ 2,272,419
Depreciation account	4,278,846
Liability insurance account	907,132
Workers Compensation account	<u>100,074</u>
Total Cash	7,558,471
Accounts receivable - service (net of reserve for uncollectible accounts of \$1,871)	1,850,253
Unbilled service revenue	2,540,687
Miscellaneous receivable	<u>126,111</u>
Total Current Assets	<u>12,075,522</u>

RESTRICTED ASSETS

Cash	
First lien bond principal account	420,008
First lien bond interest account	139,885
First lien bond reserve account	721,177
Second lien bond principal account	420,049
Second lien bond interest account	139,731
Second lien bond reserve account	721,528
Subordinated indebtedness account	40
2008 water and sewer bond account	<u>4,270,641</u>
Total Restricted Assets	<u>6,833,059</u>

CAPITAL ASSETS

Utility Plant in Service	
Land and land improvements	<u>1,532,945</u>
Sewerage system	152,583,872
Accumulated depreciation	<u>(83,604,824)</u>
Net Sewerage System	<u>68,979,048</u>
Water system	21,397,011
Accumulated depreciation	<u>(9,818,736)</u>
Net Water System	<u>11,578,275</u>
Other property, plant and equipment	3,818,951
Accumulated depreciation	<u>(3,093,363)</u>
Net Other Property, Plant and Equipment	<u>725,588</u>
Water commission buy in	3,397,959
Water commission meter station	566,560
Accumulated amortization	<u>(880,457)</u>
Net Intangibles	<u>3,084,062</u>
Total Utility Plant in Service	85,899,918
Construction in Progress	<u>2,840,884</u>
Total Capital Assets	<u>88,740,802</u>

OTHER ASSETS

Due from special service area	113,421
Unamortized issuance costs	<u>267,878</u>
Total Other Assets	<u>381,299</u>
Total Assets	<u>108,030,682</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 439,044
Accrued wages	245,862
Accrued sick leave, vacation and retention - current	229,147
Charges collected for others	1,494,748
Due to County General Fund, net	563,530
Current maturities of IEPA construction loan	630,080
Current maturities of DuPage Water Commission payable	213,737
Current Liabilities Payable From Restricted Assets	
Accrued interest payable	232,901
Current maturities of revenue bonds	840,000
Total Current Liabilities	<u>4,889,049</u>

LONG-TERM LIABILITIES

Accrued sick leave, vacation and retention - noncurrent	1,309,778
Revenue bonds	12,950,000
IEPA construction loan	1,492,534
DuPage Water Commission payable	2,388,158
Other post employment benefit payable	3,176
Net pension obligation payable	<u>124,154</u>
Total Long-Term Liabilities	<u>18,267,800</u>

Total Liabilities 23,156,849

NET ASSETS

Invested in capital assets, net of related debt	74,764,812
Restricted for debt service	2,329,517
Unrestricted	<u>7,779,504</u>

TOTAL NET ASSETS \$ 84,873,833

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WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the Year Ended November 30, 2011

	Sewerage	Water	Sewer Maintenance	Administration	Totals
OPERATING REVENUES					
Sewerage Service Users' Charges					
DuPage system	\$ 8,542,750	\$ -	\$ -	\$ -	\$ 8,542,750
Other systems	425,219	-	-	-	425,219
Water Service Users' Charges					
DuPage system	-	1,970,734	-	-	1,970,734
Other systems	-	3,832,004	-	-	3,832,004
Sewer Maintenance Users' Charges	-	-	1,539,210	-	1,539,210
Administrative fees	-	-	-	1,148,142	1,148,142
DuPage Water Commission capital buy-in fee	-	196,017	-	-	196,017
Penalties	-	-	-	175,335	175,335
Miscellaneous income	352,335	303,524	-	1,204,072	1,859,931
Total Operating Revenues	9,320,304	6,302,279	1,539,210	2,527,549	19,689,342
OPERATING EXPENSES					
Operation and Maintenance Expenses					
Personnel					
Salaries	3,167,012	458,485	573,488	1,201,594	5,400,579
Employee benefits	1,004,079	146,422	181,160	381,684	1,713,345
Commodities					
Equipment parts and supplies	551,324	75,004	88,548	56,769	771,645
Chemicals and gases	389,093	82,600	20,308	333,819	825,820
Contractual Services					
Professional services	44,151	22,239	29,917	20,578	116,885
Sludge removal	326,689	-	-	-	326,689
Natural gas	232,807	22,506	1,486	-	256,799
Electricity	876,158	70,005	19,021	-	965,184
Water and sewer	27,771	710,979	-	-	738,750
Repairs and maintenance	149,595	11,005	19,234	11,692	191,526
Reimbursements	377,486	3,832,004	-	-	4,209,490
Other contractual	346,461	504,779	192,391	203,341	1,246,972
Total Operation and Maintenance Expenses	7,492,626	5,936,028	1,125,553	2,209,477	16,763,684
Operating income before amortization and depreciation	1,827,678	366,251	413,657	318,072	2,925,658
Amortization of intangibles	-	240,349	-	-	240,349
Depreciation	3,088,279	369,403	-	-	3,457,682
Total Operating Expenses	10,580,905	6,545,780	1,125,553	2,209,477	20,461,715
Operating Income (Loss)	(1,260,601)	(243,501)	413,657	318,072	(772,373)
NONOPERATING REVENUES (EXPENSES)					
Investment income	8,693	-	-	40,835	49,528
Interest expense on bonds and loans	(287,181)	(62,868)	(123,032)	-	(473,081)
Amortization of bond discount and issuance costs	(28,255)	(4,914)	(7,780)	-	(40,949)
Loss on disposal of assets	1,900	-	-	-	1,900
Total Nonoperating Revenues (Expenses)	(304,843)	(67,782)	(130,812)	40,835	(462,602)
Income before contributions	(1,565,444)	(311,283)	282,845	358,907	(1,234,975)
CAPITAL CONTRIBUTIONS - CONNECTION CHARGES	252,903	3,625	-	-	256,528
CHANGE IN NET ASSETS	\$ (1,312,541)	\$ (307,658)	\$ 282,845	\$ 358,907	(978,447)
NET ASSETS, Beginning of Year					85,852,280
NET ASSETS - END OF YEAR					\$ 84,873,833

See accompanying notes to financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENT OF CASH FLOWS For the Year Ended November 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 17,280,413
Payments to employees for services	(7,201,836)
Payments to suppliers for goods and services	(9,825,633)
Other revenue	<u>1,964,545</u>
Net Cash Flows From Operating Activities	<u>2,217,489</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment to other funds	<u>133,948</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	6,900,000
Investment income	<u>49,528</u>
Net Cash Flows From Investing Activities	<u>6,949,528</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,457,559)
Principal payments on revenue bonds	(810,000)
Principal payments on IEPA loan	(609,431)
Principal payments on DuPage Water Commission payable	(212,649)
Interest payments on bonds and loans	(673,190)
Proceeds from connection charges	<u>256,528</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(4,506,301)</u>
Net Increase in Cash and Cash Equivalents	4,794,664
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>9,596,866</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,391,530</u>
CONSISTING OF	
Cash	\$ 7,558,471
Restricted cash	<u>6,833,059</u>
CASH AND CASH EQUIVALENTS	<u>\$ 14,391,530</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM
OPERATING ACTIVITIES**

Operating income (loss)	\$ (772,373)
Adjustments to Reconcile Operating Income (loss) to Net Cash From Operating Activities	
Depreciation	3,457,682
Amortization of other assets	240,349
Changes in assets and liabilities	
Accounts receivable, net	(361,491)
Accrued unbilled service revenue	(187,507)
Due from other governmental units	59,200
Due from special service area	28,570
Miscellaneous receivable	16,844
Accounts payable	(195,778)
Accrued sick leave, vacation, retention and wages payable	(134,549)
Other post employment benefits payable	(370)
Net pension obligation payable	47,007
Charges collected for others	<u>19,905</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,217,489</u>

See accompanying notes to financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Water and Sewerage System of DuPage County, Illinois (System) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental 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 System are described below.

REPORTING ENTITY

The System began operations in 1962 and is a fund of DuPage County (County). The System, which is operated by the DuPage County Public Works Department, owns and operates sewerage collection and treatment facilities along with water pumping and distribution systems in certain areas of the County. Financial policies and regulations are established and adopted by the passage of a governing ordinance (ordinance). The System consists of an operating fund and multiple bond, interest, and reserve accounts required by ordinances described in Note 4. All intrafund transactions are eliminated.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The System 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 System'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 System has elected 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.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

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

ASSETS, LIABILITIES AND NET ASSETS

Cash and Investments

The System's cash and investments consist of demand deposits. For the statement of cash flows, cash equivalents have original maturities of three months or less from the date of acquisition.

Illinois Statutes authorize the System to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

The System follows the investment policy adopted by the County. That policy follows the state statute for allowable investments. Additionally, the System's restricted cash and cash equivalents must be invested in qualified investments as directed by the revenue bond ordinance relating to the Series 2008A and Series 2008B Water and Sewerage System Revenue Bonds. Qualified investments shall mean:

- (1) direct obligations of, or obligations the timely payment of which is fully guaranteed by, the United States of America;
- (2) certificates of deposit or time deposits issued by any bank or savings and loan institution and
 - (i) insured by the Federal Deposit Insurance Corporation or
 - (ii) to the extent not insured as described in (i), secured by obligations described in (1) above held by the depository which have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificate or time deposit;
- (3) obligations of the Federal Home Loan Bank, Federal Farm Credit Administration, Federal National Mortgage Association, Federal Intermediate Credit Banks, Bank for Cooperatives or the Federal Land Bank;
- (4) obligations of any state which are rated in either of the two highest rating categories by both Moody's Investors Service and Standard & Poor's Rating Services (or a nationally recognized successor of either);
- (5) repurchase agreements extending not more than 30 days with any banks which are members of the Federal Reserve System or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York that are secured by obligations described in (1) above which obligations
 - (i) have a current market value at least equal to 103% of the amount of the repurchase agreement, marked to market weekly and
 - (ii) have been deposited in trust by such banks or dealers with a Federal Reserve Bank or branch for the benefit of the County and the appropriate fund or account as collateral security for such repurchase agreements; and
- (6) obligations of any state or political subdivision or instrumentality of any state which are secured by obligations described in (1) above.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Receivables/Payables

Outstanding balances between the System and other funds of the County are reported as due to/from County funds. The System and the County perform services for one another, in some instances without the exchange of cash. A due to/from is set up to track the balance of what is owed by each party. As activity is back and forth, the interfund balance is considered to be current.

The System states accounts receivable at the amounts billed to customers. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected.

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. When both restricted and unrestricted resources are available for use and using restricted resources is appropriate, it is the System's policy to use restricted resources first, then unrestricted resources.

Capital Assets

Capital assets purchased, constructed and obtained through federal grants are recorded at cost or estimated historical cost. Major outlays for System 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. The total interest expense incurred by the System during the current fiscal year was \$660,867. Of this amount, \$187,786 was included as part of capital assets under construction in progress. Certain System plant and sewer systems acquired under agreements providing for connections in lieu of cash are recorded at the value of the connection charges at the time of fulfillment of all prepaid connections due under each applicable agreement. In addition, certain contributed property has been recorded at the donor's cost or engineering estimate, whichever was lower at the time the property contributed was recorded. A minimum capitalization threshold of \$5,000 and an estimated useful life greater than one year has been established for capital asset reporting.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of these assets, generally between 5 and 50 years. Expenditures which significantly extend the lives or expand capacity of the capital assets are capitalized. All other repairs and maintenance are charged to operations currently.

Accrued Vacation, Sick Leave and Retention

The System has accrued its estimated liability for compensated absences relating to accrued vacation, sick leave, and the employee retention program for employees as of November 30, 2011. The liability is liquidated from general operating revenues of the system.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are reported as deferred charges. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

REVENUES AND EXPENSES

The System 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 the System's principal ongoing operations. The principal operating revenues of the System is charges to customers for sales and services. 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.

Charges for Services

Billings are rendered and recorded bi-monthly based on metered usage. The System accrues revenues beyond billing dates. Current water and sewerage rates were approved by the Public Works Committee on October 20, 2009. A motion was passed on December 6, 2011 to adjust water rates effective January 1, 2012 and sewer rates effective January 1, 2013. The motion also incorporated water rate changes effective January 1, 2013, January 1, 2014 and January 1, 2015.

Operating Expenses

The System accounts for direct sewerage, sewer maintenance, and water system operating expenses separately. Common indirect expenses are allocated to various operating expenses of sewerage, sewer maintenance, and water operations based on the benefits those costs provide. In addition, the System accounts for certain administrative expenses separately.

Capital Contributions

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

The System 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.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. Application of these standards may restate portions of these financial statements.

NOTE 2 – CASH AND INVESTMENTS

The System is covered under the County's investment policy, which states that time deposits in excess of FDIC or FSLIC insurable limits must be secured by some sort of collateral to protect public deposits in a single financial institution if it were to default due to poor management or economic factors. All non FDIC or FSLIC financial institutions must fully collateralize deposits.

As of November 30, 2011, cash and cash equivalents at year end consisted of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits with financial institutions	\$ 14,391,530	\$ 14,435,728	Custodial credit
Total	\$ 14,391,530	\$ 14,435,728	
Per statement of net assets			
Cash	\$ 7,558,471		
Restricted cash	6,833,059		
Total deposits and investments	\$ 14,391,530		

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 for non-interest bearing transaction accounts.

The System maintains 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 System alone. Therefore, coverage for the System may be reduced. Further information about whether County deposits are insured, collateralized, or uncollateralized is available from the County's financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 2 – CASH AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits

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

The System is covered under the County's investment policy, which states that time deposits in excess of FDIC or FSLIC insurable limits must be secured by collateral to protect public deposits in a single financial institution if it were to default due to poor management or economic factors. All non FDIC or FSLIC financial institutions must fully collateralize deposits. Further information about whether County deposits are insured, collateralized, or uncollateralized is available from the County's financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 3 – CAPITAL ASSETS

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

	Balance Beginning	Additions/ Transfers	Transfers/ Disposal	Balance Ending
Capital assets, not being depreciated				
Land	\$ 1,527,725	\$ -	\$ -	\$ 1,527,725
Land improvements	5,220	-	-	5,220
Construction in progress	1,466,795	2,510,457	1,136,368	2,840,884
Total Capital Assets Not Being Depreciated	<u>2,999,740</u>	<u>2,510,457</u>	<u>1,136,368</u>	<u>4,373,829</u>
Capital assets being depreciated/amortized				
Sewerage treatment plant	82,966,557	253,583	-	83,220,140
Sewerage systems	69,199,886	163,846	-	69,363,732
Total Sewerage System	<u>152,166,443</u>	<u>417,429</u>	<u>-</u>	<u>152,583,872</u>
Water pumping facility	8,930,322	-	-	8,930,322
Water supply	11,716,914	749,775	-	12,466,689
Total Water System	<u>20,647,236</u>	<u>749,775</u>	<u>-</u>	<u>21,397,011</u>
Data processing equipment	260,864	-	-	260,864
Technical equipment	341,545	20,600	-	362,145
Construction equipment	574,329	-	-	574,329
Other equipment	320,583	10,933	-	331,516
Autos and trucks	2,152,357	13,531	80,725	2,085,163
Furniture and office equipment	204,934	-	-	204,934
Total Equipment	<u>3,854,612</u>	<u>45,064</u>	<u>80,725</u>	<u>3,818,951</u>
Water commission buy in	3,397,959	-	-	3,397,959
Water commission meter station	566,560	-	-	566,560
Total Intangibles	<u>3,964,519</u>	<u>-</u>	<u>-</u>	<u>3,964,519</u>
Total Capital Assets Being Depreciated/Amortized	<u>180,632,810</u>	<u>1,212,268</u>	<u>80,725</u>	<u>181,764,353</u>
Less: Accumulated depreciation/amortization				
Sewerage System	(80,714,401)	(2,890,423)	-	(83,604,824)
Water System	(9,449,333)	(369,403)	-	(9,818,736)
Equipment	(2,976,232)	(197,856)	(80,725)	(3,093,363)
Intangibles	(640,108)	(240,349)	-	(880,457)
Total Accumulated Depreciation/Amortization	<u>(93,780,074)</u>	<u>(3,698,031)</u>	<u>(80,725)</u>	<u>(97,397,380)</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>86,852,736</u>	<u>(2,485,763)</u>	<u>-</u>	<u>84,366,973</u>
Net Capital Assets	<u>\$ 89,852,476</u>			<u>\$ 88,740,802</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 4 – LONG-TERM OBLIGATIONS

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue Bonds	\$ 14,600,000	\$ -	\$ 810,000	\$ 13,790,000	\$ 840,000
Other Liabilities					
IEPA construction loan	2,732,045	-	609,431	2,122,614	630,080
DuPage Water Commission payable	2,814,544	-	212,649	2,601,895	213,737
Accrued compensated absences	1,679,096	517,034	657,205	1,538,925	229,147
Other post employment benefit payable	3,546	-	370	3,176	-
Net pension obligation payable	77,147	47,007	-	124,154	-
Total Other Liabilities					
 Total Long-Term Obligations	 \$ 21,906,378	\$ 564,041	\$ 2,289,655	\$ 20,180,764	\$ 1,912,964

REVENUE BONDS PAYABLE

Revenue bonds outstanding at year end are as follows:

Date	Series	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 11/30/11
7/23/2008	Series 2008A	1/1/2024	4.5%	\$ 8,250,000	\$ 6,900,000
7/23/2008	Series 2008B	1/1/2024	4.5%	8,250,000	6,890,000
	Total			\$ 16,500,000	\$ 13,790,000

Future Bond Payments

Fiscal Year	Series 2008A		
	Bond Principal	Interest	Total
2012	\$ 420,000	\$ 272,356	\$ 692,356
2013	435,000	257,394	692,394
2014	450,000	241,344	691,344
2015	465,000	224,188	689,188
2016	485,000	205,769	690,769
2017-2021	2,720,000	715,548	3,435,548
2022-2024	1,925,000	131,643	2,056,643
Totals	\$ 6,900,000	\$ 2,048,242	\$ 8,948,242

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS PAYABLE (cont.)

Future Bond Payments (cont.)

Fiscal Year	Series 2008B		
	Bond Principal	Interest	Total
2012	\$ 420,000	\$ 271,906	\$ 691,906
2013	435,000	256,944	691,944
2014	450,000	240,894	690,894
2015	465,000	223,738	688,738
2016	480,000	205,419	685,419
2017-2021	2,725,000	712,804	3,437,804
2022-2024	1,915,000	130,976	2,045,976
Totals	<u>\$ 6,890,000</u>	<u>\$ 2,042,681</u>	<u>\$ 8,932,681</u>

PLEGGED REVENUES

The System has pledged a portion of future net revenues to repay \$16,500,000 in revenue bonds issued on July 23, 2008 to acquire, construct, or improve certain projects for the System and for the refunding of the System's Series 2003A and 2003B bonds. The bonds are payable solely from the revenues generated by the System and are payable through January 1, 2024. The pledged revenues are projected to be sufficient to meet debt service requirements over the life of the bonds. The total principal and interest remaining on the bonds is \$17,880,923. For the current year, principal and interest paid and total net revenues were \$1,383,138 and \$3,231,714, respectively. Annual principal and interest are expected to require approximately 7% of gross revenues.

CONTINUING DISCLOSURE REQUIREMENT

For the fiscal years ended November 30, 2010 and November 30, 2009, the County properly filed its audited financial statements in accordance with its continuing disclosure agreements ("agreements") but did not include the additional information required in the agreements within the required time period. The County has since filed the required additional information.

PRIOR YEAR DEFEASANCE OF DEBT

On July 21, 2008, the System defeased \$3,800,000 of the Series 2008A and 2008B revenue bonds. A portion of the proceeds and additional cash paid by the System were used to purchase U.S. Treasury – State and Local Government Series. These funds were placed in an irrevocable trust for the purpose of providing debt service payments to the Revenue Bonds Series 2003A and 2003B. As a result, these bonds are considered defeased and the liability has been removed from the System's financial statements. Defeased bonds remaining outstanding at November 30, 2011 are \$845,000.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 4 – LONG-TERM DEBT (cont.)

WATER AND SEWERAGE SYSTEM REVENUE BOND ORDINANCE

On July 21, 2008, the County Board adopted a revenue bond ordinance authorizing and providing for the issuance of Water and Sewerage System Revenue Bonds, Series A of 2008 and Series B of 2008, for the purpose of refunding outstanding Series 2003A and 2003B Revenue bonds and to fund various capital improvement projects. The 2008 Ordinance required a "Revenue Fund" and various accounts within that fund to be established. The 2008 Ordinance account structure is as follows:

Operation and Maintenance Account – An amount sufficient to make the amount then on deposit equal to 1/12th of the amount of current expenses budgeted for the current fiscal year.

First Lien Interest Account – An amount sufficient to cover interest becoming due on the next succeeding interest payment date on a monthly pro rata basis.

First Lien Principal Account – An amount sufficient to cover principal becoming due on the next succeeding principal payment date on a monthly pro rata basis.

First Lien Bond Reserve Account – An amount equal to the maximum annual debt service with respect to the 2008A Revenue Bonds.

Second Lien Interest Account – An amount sufficient to cover interest becoming due on the next succeeding interest payment date on a monthly pro rata basis.

Second Lien Principal Account – An amount sufficient to cover principal becoming due on the next succeeding principal payment date on a monthly pro rata basis.

Second Lien Bond Reserve Account – An amount equal to the maximum annual debt service with respect to the 2008B Revenue Bonds.

Subordinated Indebtedness Account – An amount sufficient to cover interest becoming due on the IEPA construction loan on the next succeeding interest payment date, and an amount sufficient to cover the principal of the loan coming due on the next succeeding principal maturity date.

Depreciation Account – An amount equal to the percentage of the Depreciation Funding Requirement as determined by the Superintendent of Public Works whenever the balance in said account is less than the Depreciation Funding Requirement.

General Account – All revenues remaining in the Revenue Fund after all required transfers are made to the respective accounts.

Deposits held in the Revenue Fund are required to be transferred, when available, to the established accounts in the above order.

At November 30, 2011, all required balances were in accordance with the Ordinance.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 5 – IEPA CONSTRUCTION LOAN

The System borrowed funds from the Illinois Environmental Protection Agency for sewerage treatment facility improvements. The original principal amount to be repaid under the loan agreement with the IEPA is \$9,900,000. The loan bears an interest rate of 3.36% per annum and matures on June 1, 2015. The total principal paid in fiscal year 2011 was \$609,431.

Payments due on the IEPA Construction Loan through maturity are as follows:

<u>Fiscal Year</u>	IEPA Construction Loan		
	Principal	Interest	Total
2012	\$ 630,080	\$ 66,071	\$ 696,151
2013	651,427	44,724	696,151
2014	673,500	22,651	696,151
2015	167,607	2,815	170,422
Totals	\$ 2,122,614	\$ 136,261	\$ 2,258,875

NOTE 6 – DUPAGE WATER COMMISSION PAYABLE

The System has borrowed funds from the DuPage Water Commission (Commission) to finance the attachment to the Commission's infrastructure. The original principal to be repaid under the agreement is \$3,413,299. Interest adjusts on May 1 each year based upon the Commission's December 31 rate. The interest rate at November 30, 2011 was 6.27% and is charged on the annual principal reductions. The total principal paid during 2011 was \$212,649.

The terms of this agreement are currently being reviewed by the System and Commission. The outcome of the review is not known at this time. It is possible that terms will be clarified which may or may not result in an adjustment to the future repayment schedule.

Payments due using the current interest rate of 6.27% are as follows:

<u>Fiscal Year</u>	DuPage Water Commission Payable		
	Principal	Interest	Total
2012	\$ 213,737	\$ 13,401	\$ 227,138
2013	213,737	13,401	227,138
2014	213,737	13,401	227,138
2015	213,737	13,401	227,138
2016	213,737	13,401	227,138
2017-2021	1,068,687	67,006	1,135,693
2022-2024	464,523	29,036	493,559
Totals	\$ 2,601,895	\$ 163,047	\$ 2,764,942

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

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

The following calculation supports the System's net assets invested in capital assets:

Capital assets, net of accumulated depreciation	\$ 88,740,802
Less: Capital related debt	
Current portion of capital related IEPA construction loan	630,080
Current portion of capital related revenue bonds	840,000
Current portion of DuPage Water Commission payable	213,737
Long-term portion of capital related IEPA construction loan	1,492,534
Long-term portion of DuPage Water Commission payable	2,388,158
Long-term portion of capital related revenue bonds	12,950,000
Noncapital debt	(267,878)
Sub-Total	<u>18,246,631</u>
Add: Unspent debt proceeds – 2008 water and sewer bond account	<u>4,270,641</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 74,764,812</u>

The following calculation supports the System's net assets restricted for debt service:

Total restricted assets	\$ 6,833,059
Unspent debt proceeds – 2008 water and sewer bond account	(4,270,641)
Liabilities payable from restricted assets:	
Accrued interest payable	<u>(232,901)</u>
Total Net Assets Restricted for Debt Service	<u>\$ 2,329,517</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 8 – RISK MANAGEMENT

The System maintains a managed self-insured automobile and liability risk management program. Under this program, the System retains the first \$2,000,000 of general claim risk per occurrence. An additional insurance policy covers claims in excess of this amount. Liabilities of the program are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Management is not aware of any asserted claims. An amount for claims incurred but not yet reported has not been accrued in the financial statements at November 30, 2011, due to minimal claims experience over the past three years. There have been no significant reductions in insurance coverage from coverage in the prior years. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

Employees of the System are covered for health benefits and workers' compensation under the DuPage County self-insurance program, reported in an Internal Service Fund of the County. The System is charged a share of the overall program cost, which totaled \$699,621 in fiscal 2011. See the DuPage County Comprehensive Annual Financial Report for additional information.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

ILLINOIS MUNICIPAL RETIREMENT FUND

The employees of the County are covered under the Illinois Municipal Retirement Fund (IMRF), an agent-multiple-employer public employee retirement system. Substantially all employees of the System participate in the IMRF. The IMRF is financed primarily by (a) County contributions, (b) member contributions, and (c) income from investments. The annual contribution rate fixed by the IMRF Board of Trustees provides for full funding of prior service costs, including interest, as determined actuarially, over a future period of not more than 40 years. The System reimburses the County for the estimated pension costs applicable to System employees. Reimbursement are based on a percentage of total System salaries of \$5,403,093, was \$562,462. Reimbursements for the years ended November 30, 2010 and 2009 were \$501,159 and \$442,439, respectively.

The County obtains an actuarial valuation annually, with the last completed valuation being for the year ended December 31, 2010. The County's annual required contribution and actual contribution were estimated for the current fiscal year as the updated actuarial valuation was not available as of the timing of this report. Information for the past three years were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual Required Contribution	\$ 18,279,169	\$ 22,476,534	\$ 18,765,700
Actual Contribution	<u>\$ 16,869,339</u>	<u>\$ 20,202,005</u>	<u>\$ 18,765,700</u>

As of November 30, 2011, the estimated portion of the County's net pension obligation payable applicable to the System was \$124,154, which was an increase of \$47,007 over the prior year. Please refer to the County's financial statements for additional information concerning the plan and net pension obligation.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

The County provides limited health-care insurance for certain eligible employees. The Plan provides an explicit premium subsidy to certain employees who meet eligibility conditions, and other coverage to certain employees as a function of their early retirement agreements. The County's annual other postemployment benefit costs are calculated based on the annual required contribution of the employer as determined by an actuary in accordance with parameters of Governmental Accounting Standards Board Statement No. 45. The County's annual required contribution and actual contribution for the past three years was as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual Required Contribution	\$ 584,353	\$ 560,289	\$ 535,414
Actual Contribution	<u>\$ 604,346</u>	<u>\$ 511,200</u>	<u>\$ 511,200</u>

As of November 30, 2011, the estimated portion of the County's other post employment benefit obligation payable applicable to the System was \$3,176, which was a decrease of \$370 from the prior year. Please refer to the County's financial statements for additional information concerning the plan and the other postemployment benefit obligation.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

DUPAGE WATER COMMISSION CONTRACT

The System is a customer of the DuPage Water Commission and has executed a Water Supply Contract with the Commission for a term ending in 2024. The Contract provides that the System pay its proportionate share of “fixed costs” (debt service and capital costs) to the Commission, such obligation being unconditional and irrevocable whether or not water is ever delivered. These costs are billed and payable to the System on an annual basis as water service is rendered. The following represents future minimum obligations under the agreement:

<u>Fiscal Year</u>	<u>Amount*</u>
2012	\$ 48,665
2013	48,665
2014	48,665
2015	48,665
2016	48,665
2017-2021	243,325
2022-2024	<u>105,441</u>
Total	<u>\$ 592,091</u>

* These amounts are estimates which have been calculated using the System’s calendar year 2009 and 2010 historic usage percentage of .681%. The estimates and usage percentage are subject to change in future years. Estimates for the future years are not currently available; however, the System does not expect the minimum amounts for these years to materially vary from the amounts presented above. Included in the above amounts is a monthly charge for the Southeast Regional Facility that is billed to the City of Darien, but paid for by the System.

Claims and Judgments

From time to time, the System is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the System’s legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the System’s financial position or results of operations.

Open Contracts

The System has signed construction contracts that continue into subsequent years. These contracts are for construction of the York Township water tower and main, aeration tank rehabilitation, secondary clarifiers rehabilitation and roof replacement at three sewer plants. The value of service provided and the corresponding liability as of November 30, 2011 has been accrued in these financial statements. The value of service to be provided in subsequent fiscal years has not been accrued and is approximately \$6,760,000.

SUPPLEMENTARY INFORMATION

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

COMBINING SCHEDULE OF NET ASSETS
As of November 30, 2011

ASSETS	Bond and Interest Accounts	Bond Reserve Accounts	2008 Water and Sewer Bond Account	Other Accounts	Total
CURRENT ASSETS					
Cash and Investments					
Operation and maintenance account	\$ -	\$ -	\$ -	\$ 2,272,419	\$ 2,272,419
Depreciation account	-	-	-	4,278,846	4,278,846
Liability insurance account	-	-	-	907,132	907,132
Workers compensation account	-	-	-	100,074	100,074
Total Cash and Investments	-	-	-	7,558,471	7,558,471
Accounts receivable - service				1,850,253	1,850,253
Unbilled service revenue	-	-	-	2,540,687	2,540,687
Miscellaneous receivable	-	-	-	126,111	126,111
Total Current Assets	-	-	-	12,075,522	12,075,522
RESTRICTED ASSETS					
Cash and Investments					
First lien bond principal account	420,008	-	-	-	420,008
First lien bond interest account	139,885	-	-	-	139,885
First lien bond reserve account	-	721,177	-	-	721,177
Second lien bond principal account	420,049	-	-	-	420,049
Second lien bond interest account	139,731	-	-	-	139,731
Second lien bond reserve account	-	721,528	-	-	721,528
Subordinated indebtedness account	40	-	-	-	40
2008 water and sewer bond account	-	-	4,270,641	-	4,270,641
Total Restricted Assets	1,119,713	1,442,705	4,270,641	-	6,833,059
CAPITAL ASSETS					
Utility Plant in Service					
Land and land improvements	-	-	-	1,532,945	1,532,945
Sewerage system	-	-	-	152,583,872	152,583,872
Accumulated depreciation	-	-	-	(83,604,824)	(83,604,824)
Net Sewerage System	-	-	-	68,979,048	68,979,048
Water system	-	-	-	21,397,011	21,397,011
Accumulated depreciation	-	-	-	(9,818,736)	(9,818,736)
Net Water System	-	-	-	11,578,275	11,578,275
Other property, plant and equipment	-	-	-	3,818,951	3,818,951
Accumulated depreciation	-	-	-	(3,093,363)	(3,093,363)
Net Property, Plant and Equipment	-	-	-	725,588	725,588
Water commission buy in	-	-	-	3,397,959	3,397,959
Water commission meter station	-	-	-	566,560	566,560
Accumulated amortization	-	-	-	(880,457)	(880,457)
Net Intangibles	-	-	-	3,084,062	3,084,062
Total Utility Plant in Service	-	-	-	85,899,918	85,899,918
Construction in Progress	-	-	2,129,437	711,447	2,840,884
Total Capital Assets	-	-	2,129,437	86,611,365	88,740,802

	Bond and Interest Accounts	Bond Reserve Accounts	2008 Water and Sewer Bond Account	Other Accounts	Total
ASSETS (cont.)					
OTHER ASSETS					
Due from special service area	\$ -	\$ -	\$ -	\$ 113,421	\$ 113,421
Unamortized issuance costs	-	-	-	267,878	267,878
Total Other Assets	-	-	-	381,299	381,299
 Total Assets	 1,119,713	 1,442,705	 6,400,078	 99,068,186	 108,030,682
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	-	-	-	439,044	439,044
Accrued wages	-	-	-	245,862	245,862
Current accrued sick leave, vacation and retention	-	-	-	229,147	229,147
Charges collected for others	-	-	-	1,494,748	1,494,748
Due to County General Fund, net	-	-	-	563,530	563,530
Current Liabilities Payable From Restricted Assets					
Accrued interest payable	232,901	-	-	-	232,901
Current maturities of revenue bonds	-	-	-	840,000	840,000
Current maturities of IEPA construction loan	-	-	-	630,080	630,080
Current maturities of DuPage Water Commission payable	-	-	-	213,737	213,737
Total Current Liabilities	232,901	-	-	4,656,148	4,889,049
LONG-TERM LIABILITIES					
Noncurrent accrued sick leave, vacation and retention	-	-	-	1,309,778	1,309,778
Revenue bonds	-	-	-	12,950,000	12,950,000
IEPA construction loan	-	-	-	1,492,534	1,492,534
DuPage Water Commission payable	-	-	-	2,388,158	2,388,158
Other post employment benefit payable	-	-	-	3,176	3,176
Net pension obligation payable	-	-	-	124,154	124,154
Total Long-Term Liabilities	-	-	-	18,267,800	18,267,800
 Total Liabilities	 232,901	 -	 -	 22,923,948	 23,156,849
NET ASSETS					
Invested in capital assets, net of related debt	-	-	6,400,078	68,364,734	74,764,812
Restricted for debt service	886,812	1,442,705	-	-	2,329,517
Unrestricted	-	-	-	7,779,504	7,779,504
 TOTAL NET ASSETS	 \$ 886,812	 \$ 1,442,705	 \$ 6,400,078	 \$ 76,144,238	 \$ 84,873,833

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

COMBINING SCHEDULE OF CHANGES IN CASH AND CASH EQUIVALENTS
For the Year Ended November 30, 2011

	Operation and Maintenance Account	Bond and Interest Accounts				Subordinated Indebtedness Account
		First Lien Principal Account	First Lien Interest Account	Second Lien Principal Account	Second Lien Interest Account	
CASH RECEIPTS						
Service charges	\$ 17,280,413	\$ -	\$ -	\$ -	\$ -	\$ -
Connection charges	256,528	-	-	-	-	-
Sale of investments	-	-	-	-	-	-
Interest income	11,495	-	-	-	-	-
Transfers (to) from, net	(2,270,199)	434,000	267,792	429,018	267,263	696,156
Other, net	1,964,545	-	-	-	-	-
Total Cash Receipts	<u>17,242,782</u>	<u>434,000</u>	<u>267,792</u>	<u>429,018</u>	<u>267,263</u>	<u>696,156</u>
CASH DISBURSEMENTS						
Operating expenses	17,027,469	-	-	-	-	-
Acquisition and construction of capital assets	-	-	-	-	-	-
Principal and interest expense	225,981	405,000	286,794	405,000	286,344	696,151
Payment to other funds	(133,948)	-	-	-	-	-
Total Cash Disbursements	<u>17,119,502</u>	<u>405,000</u>	<u>286,794</u>	<u>405,000</u>	<u>286,344</u>	<u>696,151</u>
Excess (Deficiency) of Cash Receipts Over Cash Disbursements	123,280	29,000	(19,002)	24,018	(19,081)	5
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,149,139</u>	<u>391,008</u>	<u>158,887</u>	<u>396,031</u>	<u>158,812</u>	<u>35</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,272,419</u>	<u>\$ 420,008</u>	<u>\$ 139,885</u>	<u>\$ 420,049</u>	<u>\$ 139,731</u>	<u>\$ 40</u>
CONSISTING OF						
Demand deposits	\$ 2,272,419	\$ 420,008	\$ 139,885	\$ 420,049	\$ 139,731	\$ 40
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,272,419</u>	<u>\$ 420,008</u>	<u>\$ 139,885</u>	<u>\$ 420,049</u>	<u>\$ 139,731</u>	<u>\$ 40</u>

<u>Bond Reserve Accounts</u>						
<u>First Lien Bond Reserve Account</u>	<u>Second Lien Bond Reserve Account</u>	<u>2008 Water & Sewer Bond Account</u>	<u>Depreciation Account</u>	<u>Liability Insurance Account</u>	<u>Workers' Compensation Account</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,280,413
-	-	-	-	-	-	256,528
700,000	700,000	3,000,000	2,500,000	-	-	6,900,000
4,613	4,614	8,693	18,878	1,235	-	49,528
-	-	(500,000)	500,896	125,000	50,074	-
-	-	-	-	-	-	1,964,545
<u>704,613</u>	<u>704,614</u>	<u>2,508,693</u>	<u>3,019,774</u>	<u>126,235</u>	<u>50,074</u>	<u>26,451,014</u>
-	-	-	-	-	-	17,027,469
-	-	1,960,949	496,610	-	-	2,457,559
-	-	-	-	-	-	2,305,270
-	-	-	-	-	-	(133,948)
-	-	<u>1,960,949</u>	<u>496,610</u>	-	-	<u>21,656,350</u>
704,613	704,614	547,744	2,523,164	126,235	50,074	4,794,664
<u>16,564</u>	<u>16,914</u>	<u>3,722,897</u>	<u>1,755,682</u>	<u>780,897</u>	<u>50,000</u>	<u>9,596,866</u>
<u>\$ 721,177</u>	<u>\$ 721,528</u>	<u>\$ 4,270,641</u>	<u>\$ 4,278,846</u>	<u>\$ 907,132</u>	<u>\$ 100,074</u>	<u>\$ 14,391,530</u>
<u>\$ 721,177</u>	<u>\$ 721,528</u>	<u>\$ 4,270,641</u>	<u>\$ 4,278,846</u>	<u>\$ 907,132</u>	<u>\$ 100,074</u>	<u>\$ 14,391,530</u>
<u>\$ 721,177</u>	<u>\$ 721,528</u>	<u>\$ 4,270,641</u>	<u>\$ 4,278,846</u>	<u>\$ 907,132</u>	<u>\$ 100,074</u>	<u>\$ 14,391,530</u>

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OTHER INFORMATION

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)

As of November 30, 2011

Property/Boiler	All risk building contents for scheduled amounts at each location; \$100,000 deductible - Flood and earthquake sub limit \$100,000,000 each; \$500,000 deductible	
General Liability, Auto Liability, Auto Property	\$30,000,000 coverage	\$2,000,000 self-insured retention
Employment Practices	\$2,000,000 coverage	\$100,000 self-insured retention
Underground Storage	\$2,000,000 coverage	\$100,000 deductible
Crime Coverage	\$2,000,000 coverage	\$50,000 deductible
Workers' Compensation	Statutory Coverage; self-insured retention \$1,000,000; employer limit of liability \$1,000,000	

NOTE: The Ordinance requires that the audit report include a list of all insurance policies held by the County pursuant to the Ordinance. The insurance coverage of the water and sewerage treatment plants and their operations is included in the above coverage of the County, for all County property (exclusive of those for the Health Department, which has separate coverage).

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

REQUIRED INFORMATION FOR CONTINUING DISCLOSURE UNDERTAKING
As of and for the Year Ending November 30, 2011

Customers

Total Metered Sewer and Water Customers

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Metered Sewer Customers	34,854	35,152	35,175	35,454	35,661	35,970	35,251	35,348	35,210
Metered Water Customers	4,457	4,490	4,608	4,626	4,701	3,148	3,163	3,078	3,111

Top 10 Sewer Customers
January 2010 through December 2010

Customer	Annual Total
Four Lakes Development Multi Unit Housing	\$129,581
Aml-i-Building Multi Unit Housing	116,355
EL-AD Windsor Lakes LLC Multi Unit Housing	95,146
Lucent Technologies	92,938
Hinsdale Lake Multi Unit Housing	84,216
Natural Falls Resort Apts. Multi Unit Housing	64,195
M&M / Mars Inc.	56,730
Benedictine University	51,455
Lakeside Apts. Multi Unit Housing	46,637
White Birch Co. Multi Unit Housing	41,198

Top 10 Water Customers
January 2010 through December 2010

Customer	Annual Total
Hinsdale Lk Multi Unit Housing	\$206,829
Mid America Property Mgt Multi Unit Housing	180,061
Stratford Green Multi Unit Housing	108,688
Hinsdale Pt. Condo Assn. Multi Unit Housing	85,873
Waterfall Glen Multi Unit Housing	79,983
Willow Lke Apts Multi Unit Housing	75,942
Mc Property Management Multi Unit Housing	58,409
River Glen Multi Unit Housing	20,252
Champagne Lodge	14,695
Steeple Run Condo Assn. Multi Unit Housing	12,106

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

REQUIRED INFORMATION FOR CONTINUING DISCLOSURE UNDERTAKING As of and for the Year Ending November 30, 2011

Consumption Data

	<u>Total Gallons Billed (1,000)</u>									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Sewer Billed Consumption	4,400	4,253	4,781	4,209	4,181	3,964	3,877	3,826	3,775	
Water Billed Consumption	545	543	665	552	552	493	499	491	468	

Rates

Sewer Service Rates Effective 1/1/11

Sewer Service Charges per 1,000 gallons	\$	2.22
Sewer Maintenance Charges per 1,000 gallons	\$	0.86

The calculation of the 2 month sewer bill for a customer using 8,000 gallons of water per month would be as follows:

Base Charge – Billing	\$	3.62
Base Charge – Meter Reading		1.96
User Charge		35.52
Sewer Maintenance Charge		13.76
NPDES Fee		0.59
Amount billed to a customer connected to a System maintained Sewer (2 month bill)	\$	55.45

Water Service Rates Effective 1/1/12

Southeast Regional Water Facility (SERWF)
\$6.99 per 1,000 gallons

North Regional Water Facility (NRWF)
\$4.83 per 1,000 gallons

Steeple Run
\$5.87 per 1,000 gallons

Greene Road
\$6.99 per 1,000 gallons

Glen Ellyn Heights
\$6.99 per 1,000 gallons

York Center
\$5.87 per 1,000 gallons

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON DEBT COVENANTS COMPLIANCE

To the Honorable Chairman and Members
of the County Board
DuPage County, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Water and Sewerage System of DuPage County, Illinois (System) as of November 30, 2011, and have issued our report thereon dated April 9, 2012.

In connection with our audit, other than the paragraph below, nothing came to our attention that caused us to believe that the System was not in compliance with any of the terms, covenants, provisions or conditions of the Revenue Bond Ordinances adopted on August 12, 2003, as amended on July 21, 2008, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

CONTINUING DISCLOSURE REQUIREMENT

For the fiscal years ended November 30, 2010 and November 30, 2009, the County properly filed its audited financial statements in accordance with its continuing disclosure agreements ("agreements") but did not include the additional information required in the agreements within the required time period. The County has since filed the required additional information.

This report is intended solely for the information and use of the DuPage County Board, the Public Works Committee, management of the System, System users, and System Revenue Bondholders, and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP
Oak Brook, Illinois
April 9, 2012

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