

**SOLID WASTE AGENCY OF
LAKE COUNTY, ILLINOIS**
Gurnee, Illinois

FINANCIAL STATEMENTS

November 30, 2006 and 2005

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS
Gurnee, Illinois

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November 30, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Solid Waste Agency of Lake County, Illinois
Gurnee, Illinois

We have audited the accompanying financial statements of the Solid Waste Agency of Lake County, Illinois (SWALCO), as of and for the years ended November 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of SWALCO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solid Waste Agency of Lake County, Illinois, as of November 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

SWALCO has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

Virchow Krause & Company LLP

Madison, Wisconsin
April 10, 2007

SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENTS OF NET ASSETS

November 30, 2006 and 2005

| | ASSETS | |
|--|---------------------|---------------------|
| | 2006 | 2005 |
| CURRENT ASSETS | | |
| Cash | \$ 215,198 | \$ 40,490 |
| Affected area compensation fees receivable | 291,293 | 295,217 |
| Other receivables | 885,671 | 11,750 |
| Prepaid insurance | 14,942 | 26,896 |
| Total Current Assets | <u>1,407,104</u> | <u>374,353</u> |
| NON-CURRENT ASSETS | | |
| Capital Assets | | |
| Plant in Service | 1,891,173 | 1,891,173 |
| Construction work in progress | 51,092 | - |
| Accumulated Depreciation | <u>(378,833)</u> | <u>(297,581)</u> |
| Total Non-Current Assets | <u>1,563,432</u> | <u>1,593,592</u> |
| TOTAL ASSETS | <u>2,970,536</u> | <u>1,967,945</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 69,416 | 28,887 |
| Affected area compensation expense payable | 603,858 | 91,655 |
| Accrued payroll | 13,375 | 11,191 |
| Compensated absences | <u>7,413</u> | <u>6,980</u> |
| Total Current Liabilities | <u>694,062</u> | <u>138,713</u> |
| Total Liabilities | <u>694,062</u> | <u>138,713</u> |
| NET ASSETS | | |
| Invested in capital assets | 1,563,432 | 1,593,592 |
| Unrestricted (Deficit) | <u>713,042</u> | <u>235,640</u> |
| TOTAL NET ASSETS | <u>\$ 2,276,474</u> | <u>\$ 1,829,232</u> |

See accompanying notes to financial statements.

SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended November 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|---------------------|---------------------|
| OPERATING REVENUES | | |
| County surcharge | \$ 1,537,926 | \$ 1,447,352 |
| Affected area compensation fees | 1,697,803 | 1,770,947 |
| Per ton fee | 245,962 | - |
| Other miscellaneous | 7,375 | 15,372 |
| Total Operating Revenues | <u>3,489,066</u> | <u>3,233,671</u> |
| OPERATING EXPENSES | | |
| Personnel services | 379,359 | 400,585 |
| Operational services | 33,392 | 48,497 |
| Contractual services | 2,549,868 | 2,452,875 |
| Capital outlay | 5,324 | 3,565 |
| Depreciation | 81,252 | 82,055 |
| Total Operating Expenses | <u>3,049,195</u> | <u>2,987,577</u> |
| OPERATING INCOME | <u>439,871</u> | <u>246,094</u> |
| NON-OPERATING INCOME | | |
| Investment income | <u>7,371</u> | - |
| CHANGE IN NET ASSETS | <u>447,242</u> | <u>246,094</u> |
| NET ASSETS - Beginning of Year | <u>1,829,232</u> | <u>1,583,138</u> |
| NET ASSETS - END OF YEAR | <u>\$ 2,276,474</u> | <u>\$ 1,829,232</u> |

See accompanying notes to financial statements.

SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENTS OF CASH FLOWS

Years Ended November 30, 2006 and 2005

| | 2006 | 2005 |
|---|--------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 2,619,069 | \$ 3,273,398 |
| Paid to suppliers for goods and services | (2,044,389) | (2,986,343) |
| Paid to employees for services | <u>(368,343)</u> | <u>(393,605)</u> |
| Net Cash Flows From Operating Activities | <u>206,337</u> | <u>(106,550)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | <u>(39,000)</u> | <u>(4,501)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | <u>7,371</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | 174,708 | (111,051) |
| CASH AND CASH EQUIVALENTS – Beginning of Year | <u>40,490</u> | <u>151,541</u> |
| CASH AND CASH EQUIVALENTS – END OF YEAR | <u>\$ 215,198</u> | <u>\$ 40,490</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income | \$ 439,871 | \$ 246,094 |
| Non-cash items included in operating income: | | |
| Depreciation | 81,252 | 82,055 |
| Changes in assets and liabilities | | |
| Affected area compensation fees receivable | 3,924 | 46,388 |
| Other receivables | (873,921) | (6,661) |
| Prepaid insurance | 11,954 | (26,896) |
| Accounts payable | 28,438 | (42,892) |
| Affected area compensation expense payable | 512,203 | (416,469) |
| Accrued payroll and compensated absences | <u>2,616</u> | <u>11,831</u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>\$ 206,337</u> | <u>\$ (106,550)</u> |

See accompanying notes to financial statements.

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting principles and policies utilized by SWALCO are described below:

REPORTING ENTITY

SWALCO is a municipal corporation formed by Lake County and 42 municipalities within Lake County for the purpose of implementing the Lake County Solid Waste Management Plan. SWALCO has a Board of Directors made up from these members, an Executive Committee (three at large and six elected members), a Legislative Committee and five staff members. SWALCO is established pursuant to the Intergovernmental Cooperation Act of the State of Illinois, the Illinois Local Solid Waste Disposal Act, the Illinois Planning and Recycling Act and Lake County Board Resolution #38 of September 12, 1989. Operations began on February 21, 1991. Following criteria established by GASB, SWALCO is not considered a component unit of the county.

MISSION STATEMENT AND OBJECTIVES

SWALCO implements a regional approach to solid waste management by addressing the economic, political and environmental issues in Lake County, and by meeting the following objectives:

- Implement and update the Lake County Solid Waste Management Plan.
- Facilitate an efficient, reliable and environmentally sound waste disposal system.
- Advise and assist SWALCO members regarding solid waste management issues.
- Educate the public regarding the implications of solid waste management options.
- Identify and disseminate information regarding techniques to reduce, reuse and recycle solid waste.

The entity generally does not dispose of solid waste for its members.

FUNDING

The agency is funded from a surcharge imposed at sanitary landfills. The surcharge also funds the Health Department's enforcement program. In addition, the agency receives host fees from the landfills and transfers those fees to Lake County.

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

SWALCO is presented following enterprise fund accounting. 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.

SWALCO follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition. SWALCO's deposits and investments are maintained by the Treasurer of Lake County in pooled deposit and investment accounts. The county's policy is to maintain collateral for all deposits.

Receivables/Payables

Other receivables consist of membership fees being paid over a number of years from member communities and other miscellaneous amounts due to SWALCO. Accounts payable consists of amounts due from SWALCO to outside parties for goods and services received.

Affected Area Compensation Fees Receivable / Expense Payable

Affected area compensation fees receivable consists of a per ton solid waste fee due to SWALCO from waste haulers. Affected area compensation expense payable consists of amounts due to Lake County from the per ton solid waste fee.

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Prepaid Insurance

Prepaid insurance represents insurance premiums which benefit subsequent periods.

Capital Assets

Capital assets are generally defined by SWALCO as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year.

Capital assets of SWALCO are recorded at cost or the fair market value at the time of contribution to SWALCO. Major outlays for SWALCO capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

| | <u>Year</u> |
|--------------------------------|-------------|
| Land improvements | 5 – 10 |
| Buildings | 30 |
| Office furniture and equipment | 2 – 10 |

Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from SWALCO's general operating revenues.

REVENUES AND EXPENSES

SWALCO 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 SWALCO's principal ongoing operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

COMPARATIVE DATA

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

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

Generally accepted accounting principles require the disclosure of SWALCO's cash and investment balances and their applicable investment insurance coverage. SWALCO's cash and investments are commingled with the Treasurer of Lake County, Illinois; therefore, individual fund bank balances cannot be determined. Please refer to Lake County's statements for further information.

NOTE 3 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2006 follows:

| | <u>Balance 12/1/05</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance 11/30/06</u> |
|---|----------------------------|------------------|------------------|-----------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 166,217 | \$ 51,092 | \$ - | \$ 166,217 |
| Construction work in progress | - | - | - | 51,092 |
| Total Capital Assets Not Being Depreciated | <u>166,217</u> | <u>51,092</u> | <u>-</u> | <u>217,309</u> |
| Capital assets being depreciated | | | | |
| Land improvements | 72,515 | - | - | 72,515 |
| Buildings | 1,495,413 | - | - | 1,495,413 |
| Office furniture and equipment | 157,028 | - | - | 157,028 |
| Total Capital Assets Being Depreciated | <u>1,724,956</u> | <u>-</u> | <u>-</u> | <u>1,724,956</u> |
| Total Capital Assets | <u>1,891,173</u> | <u>51,092</u> | <u>-</u> | <u>1,942,265</u> |
| Less: Accumulated depreciation | <u>(297,581)</u> | <u>(81,252)</u> | <u>-</u> | <u>(378,833)</u> |
| Net Capital Assets | <u>\$ 1,593,592</u> | | | <u>\$ 1,563,432</u> |

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

NOTE 3 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2005 follows:

| | <u>Balance</u> <u>12/1/04</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>11/30/05</u> |
|---|----------------------------------|------------------|------------------|-----------------------------------|
| Capital assets, not being depreciated | | | | |
| Land | <u>\$ 166,217</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 166,217</u> |
| Capital assets being depreciated | | | | |
| Land improvements | <u>72,515</u> | <u>-</u> | <u>-</u> | <u>72,515</u> |
| Buildings | <u>1,495,413</u> | <u>-</u> | <u>-</u> | <u>1,495,413</u> |
| Office furniture and equipment | <u>175,477</u> | <u>4,501</u> | <u>22,950</u> | <u>157,028</u> |
| Total Capital Assets Being Depreciated | <u>1,743,405</u> | <u>4,501</u> | <u>22,950</u> | <u>1,724,956</u> |
| Total Capital Assets | <u>1,909,622</u> | <u>4,501</u> | <u>22,950</u> | <u>1,891,173</u> |
| Less: Accumulated depreciation | <u>(238,476)</u> | <u>(82,055)</u> | <u>22,950</u> | <u>(297,581)</u> |
| Net Capital Assets | <u><u>\$ 1,671,146</u></u> | | | <u><u>\$ 1,593,592</u></u> |

NOTE 4 – 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 - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

NOTE 4 – NET ASSETS (cont.)

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

The following calculation supports the net assets invested in capital assets, net of related debt as of November 30, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Plant in service | \$ 1,891,173 | \$ 1,891,173 |
| Construction work in progress | 51,092 | - |
| Accumulated depreciation | <u>(378,833)</u> | <u>(297,581)</u> |
| Sub-Totals | 1,563,432 | 1,593,592 |
| Less: Capital related debt | - | - |
| Total Net Assets Invested in Capital Assets | <u>\$ 1,563,432</u> | <u>\$ 1,593,592</u> |

NOTE 5 – CONTINGENCIES AND COMMITMENTS

CONTINGENT LIABILITIES

Due to the nature of SWALCO's operations, claims and legal actions against hazardous waste disposal may be incurred. No amount has been recorded as a loss because the probability, or amount, cannot be reasonably estimated.

LANDFILL CONTRACTS

SWALCO has executed waste disposal capacity agreements with three landfills. The agreements were executed to provide guaranteed disposal capacity to the participating communities over their 20 year term. The agreements further call for monthly payments to SWALCO based on the tonnage received from the members. Complete terms and conditions of the agreement are available from SWALCO offices.

OPEN CONTRACTS

SWALCO has open contracts for approximately \$216,300 for modification to the household chemical waste drop off facility. As of November 30, 2006, approximately \$12,100 has been expended.

SOLID WASTE AGENCY OF LAKE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS November 30, 2006 and 2005

NOTE 6 – RISK MANAGEMENT

SWALCO is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – ILLINOIS MUNICIPAL RETIREMENT FUND

All full-time employees are currently covered by the Illinois Municipal Retirement Fund (IMRF) through Lake County. The actuarial valuation of the Plan is compiled for the county as a whole, and; therefore, it is impractical to determine SWALCO's proportionate share.

NOTE 8 – RELATED PARTIES

SWALCO is a stand-alone government as determined by criteria established by GASB. Lake County does provide certain services including, but not limited to, banking, general ledger, payroll and other data processing.

NOTE 9 – SUBSEQUENT EVENTS

On January 25, 2007, SWALCO approved a \$1 per household per year operation and maintenance fee to be paid by December 1.

R E Q U I R E D S U P P L E M E N T A R Y I N F O R M A T I O N

SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BUDGET AND ACTUAL Year Ended November 30, 2006

| | Budget | Actual | Variance |
|---------------------------------|---------------------|---------------------|-------------------|
| OPERATING REVENUES | | | |
| County surcharge | \$ 1,544,212 | \$ 1,537,926 | \$ (6,286) |
| Affected area compensation fees | 1,666,228 | 1,697,803 | 31,575 |
| Per ton fee | 187,500 | 245,962 | 58,462 |
| Other miscellaneous | 2,000 | 7,375 | 5,375 |
| Total Operating Revenues | 3,399,940 | 3,489,066 | 89,126 |
| OPERATING EXPENSES | | | |
| Personnel services | 430,560 | 379,359 | 51,201 |
| Operational services | 45,600 | 33,392 | 12,208 |
| Contractual services | 2,767,905 | 2,549,868 | 218,037 |
| Capital outlay | 155,875 | 5,324 | 150,551 |
| Depreciation | - | 81,252 | (81,252) |
| Total Operating Expenses | 3,399,940 | 3,049,195 | 350,745 |
| OPERATING INCOME | | | |
| | - | 439,871 | 439,871 |
| NON-OPERATING INCOME | | | |
| Investment income | - | 7,371 | 7,371 |
| CHANGE IN NET ASSETS | | | |
| | - | 447,242 | \$ 447,242 |
| NET ASSETS - Beginning of Year | 1,829,232 | 1,829,232 | |
| NET ASSETS - END OF YEAR | \$ 1,829,232 | \$ 2,276,474 | |

SOLID WASTE AGENCY OF LAKE COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BUDGET AND ACTUAL Year Ended November 30, 2005

| | Budget | Actual | Variance |
|--|---------------------|---------------------|----------------------------------|
| OPERATING REVENUES | | | |
| County surcharge | \$ 1,403,665 | \$ 1,447,352 | \$ 43,687 |
| Affected area compensation fees | 1,766,283 | 1,770,947 | 4,664 |
| Other miscellaneous | 5,500 | 15,372 | 9,872 |
| Total Operating Revenues | <u>3,175,448</u> | <u>3,233,671</u> | <u>58,223</u> |
| OPERATING EXPENSES | | | |
| Personnel services | 416,260 | 400,585 | 15,675 |
| Operational services | 50,200 | 48,497 | 1,703 |
| Contractual services | 2,669,988 | 2,452,875 | 217,113 |
| Capital outlay | 39,000 | 3,565 | 35,435 |
| Depreciation | - | 82,055 | (82,055) |
| Total Operating Expenses | <u>3,175,448</u> | <u>2,987,577</u> | <u>187,871</u> |
| OPERATING INCOME | | <u>246,094</u> | <u>246,094</u> |
| NON-OPERATING INCOME (EXPENSES) | | - | - |
| CHANGE IN NET ASSETS | | - | <u>246,094</u> <u>\$ 246,094</u> |
| NET ASSETS - Beginning of Year | <u>1,583,138</u> | <u>1,583,138</u> | |
| NET ASSETS - END OF YEAR | <u>\$ 1,583,138</u> | <u>\$ 1,829,232</u> | |