



# DuPage Water Commission

600 E. Butterfield Road, Elmhurst, IL 60126-4642  
(630)834-0100 Fax: (630)834-0120

## **AGENDA**

**FINANCE COMMITTEE  
THURSDAY, AUGUST 8, 2002  
7:00 P.M.**

**600 EAST BUTTERFIELD ROAD  
ELMHURST, IL 60126**

- I. Roll Call
- II. Approval of Minutes of July 10, 2002
  - A. Meeting held at 3:00 p.m.
  - B. Meeting held at 6:30 p.m.
- III. Treasurer's Report – July, 2002
- IV. Financial Statements – July, 2002
- V. Accounts Payable
- VI. Resolution R-29-02: A Resolution Approving and Accepting the Proposal of McGladrey & Pullen for Audit Services
- VII. Financial Review
  - A. Net Asset (Fund Balance) Analysis
  - B. Five Year Capital Improvement Program
  - C. Self Insurance Study
- VIII. Other
- IX. Adjournment

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All visitors must present a valid drivers license or other government-issued photo identification, sign in at the reception area and wear a visitor badge while at the DuPage Pumping Station.

**MINUTES OF A SPECIAL MEETING OF THE  
FINANCE COMMITTEE  
OF THE DU PAGE WATER COMMISSION  
HELD ON JULY 10, 2002**

The meeting was called to order at 3:00 p.m. at the offices of the DuPage Water Commission, 600 E. Butterfield Rd., Elmhurst, Illinois 60126 to conduct interviews for audit services. Committee members in attendance: A. Poole and R. Tolentino. Also in attendance: Commissioner J. Tenison, Treasurer J. Cekal and R. Skiba. Commissioner Poole led the interviews.

**Interview - McGladrey & Pullen, LLP**

This interview commenced at 3:00 p.m. The Committee received a presentation from Joe Evans and Bob Thoma, partners in the firm of McGladrey & Pullen, LLP. John George who is an audit manager with the firm reviewed the audit process details. All three then entertained and answered various questions presented by the Committee members, Commissioner Tenison, Treasurer Cekal and staff. The interview concluded at 3:55 p.m.

**Interview - KPMG**

This interview commenced at 4:05 p.m. The Committee received a presentation from Jeff Markert, partner in the firm of KPMG. Julie Barrientos who is an audit manager with the firm reviewed the audit process details. Both then entertained and answered various questions presented by the Committee members, Treasurer Cekal and staff. The interview concluded at 4:50 p.m.

**Summation**

The Committee reviewed the presentations. Further discussions on the audit service proposals will take place at the Committee's regularly scheduled meeting at 6:30 p.m, July 10, 2002. The Committee expects to make a recommendation to the full Commission at its meeting of July 10, 2002.

With no further business to come before the Committee, the meeting was adjourned at 5:10 p.m.

**DRAFT**

**MINUTES OF A MEETING OF THE  
FINANCE COMMITTEE  
OF THE DU PAGE WATER COMMISSION  
HELD ON JULY 10, 2002**

The meeting was called to order at 6:30 p.m. at the offices of the DuPage Water Commission, 600 E. Butterfield Rd., Elmhurst, Illinois 60126. Committee members in attendance: A. Poole and R. Tolentino. Also in attendance: R. Skiba.

**APPOINTMENT OF CHAIRMAN PRO TEM**

Motion by Commissioner Tolentino, seconded by Commissioner Poole, to appoint Commissioner Poole Chairman Pro tem. Motion Carried.

**MINUTES OF MEETING – JUNE 13, 2002**

Motion by Commissioner Tolentino, seconded by Commissioner Poole, to approve the minutes of the June 13, 2002 meeting. This motion carried unanimously.

**TREASURER'S REPORT – JUNE, 2002**

The Committee reviewed the June Treasurer's Report. After discussion, the report was recommended for acceptance. Motion by Commissioner Tolentino, seconded by Commissioner Poole, recommending approval of the June, 2002 Treasurer's Report by the full Commission at its meeting of July 10, 2002. This motion carried unanimously.

**FINANCIAL STATEMENTS - JUNE, 2002**

The Committee reviewed the Financial Statements for June, 2002. After a brief discussion, the Committee accepted the report. This motion carried unanimously.

**ACCOUNTS PAYABLE**

The Committee reviewed the accounts payable in the amount of \$3,643,542.27. There were no revisions to the list presented. After a brief discussion, there was a motion by Commissioner Tolentino, seconded by Commissioner Poole, to recommend approval of the accounts payable by the full Commission, at its meeting on July 10, 2002. This motion carried unanimously.

**AUDIT SERVICE PROPOSAL**

The Committee discussed the interviews with the audit firms conducted at a special Committee meeting on Wednesday, July 10, 2002. Firms interviewed were McGladrey & Pullen (3:00 p.m.) and KPMG (4:00 p.m.)

After a further discussion of the presentations, fees, qualifications and audit approaches of the two firms, the Committee consensus was to contract with McGladrey & Pullen for these services.

Motion by Commissioner Tolentino, seconded by Commissioner Poole, to recommend the full Commission, at its meeting on July 10, 2002 appoint McGladrey & Pullen as its auditors for the period May 1, 2002 through April 30, 2003 as per their proposal. This motion carried unanimously.

### **FUND BALANCE ANALYSIS AND SELF-INSURANCE STUDY**

The Committee reviewed the history of the fund balances carried by the Commission. It was noted that the self-insurance of the Commission's underground facilities as well as the five year capital improvement program have a role to play in the fund balance review. Since November 1, 2001, the Commissions underground facilities property insurance coverage has been only \$20 million. The gross cost of water mains constructed by the Commission through April 30, 2002 is over \$300 million. In addition, certain balances have been committed for capital improvements over the next five years. The Committee's consensus was that these three items be considered simultaneously during the review of the Commission's overall financial position.

### **INVESTMENT POLICY**

This item had been on the Committee's agenda for several months. It arose from a discussion of two conflicting decisions of a former and current Illinois Attorney General regarding the legality of Federal National Mortgage coupon notes in the portfolios of Illinois local governments. Staff reported that this type of investment was not critical to the Commission's overall investment income since there were other U.S. agency investments of similar yield opportunity. The Committee consensus was that this item needed no further discussion.

With no further business to come before the Committee, the meeting was adjourned at 7:00 p.m.



# DuPage Water Commission

## MEMORANDUM

TO: General Manager

FROM: Financial Administrator

DATE: August 2, 2002

SUBJECT: Financial Report – July 31, 2002

### **OVERALL FINANCIAL CONDITION**

The Commission's overall financial condition improved by \$6.3 million in the first quarter of fiscal year 2002-03. Total assets decreased \$2.7 million. Liabilities have decreased by approximately \$9.0 million after the May 1, 2002 revenue bond principal payment of \$9.1 million. Total revenues were 2.9% more than budget and total operating expenses were 5.4% below budget.

All requirements of the revenue bond ordinance have been met as of July 31, 2002. More than \$1.3 million of interest earnings have accumulated in the Debt Service Reserve, Operations and Maintenance Reserve, and Depreciation accounts. These amounts, which are in excess of the revenue bond ordinance requirements, will continue to accumulate until October. At that time, staff will recommend transfer of these amounts to the General Account so they can be used for other Water Fund purposes.

The general obligation bond principal and interest payments are fully funded through March 1, 2003. These payments continue to be funded through the Commission's sales tax proceeds. Property taxes for the bond payments have been abated annually since 1986. In addition, \$7.7 million of sales tax funds have been used to reduce the customers' fixed cost payments for fiscal year 2002-03 by 43% (\$0.11 per 1,000 gallons). Though at a higher level for the current fiscal year, this is a continuation of a practice started in fiscal year 1997-98.

### **REVENUE ANALYSIS**

Water operations and maintenance revenues were 0.3% more than budget and \$54,000 more than the same period last year. The operations and maintenance water rate increase \$0.01 per 1,000 gallons effective May 1, 2002. Wet weather slowed May water sales. Beginning in June, extremely dry hot conditions helped

the Commission set an all time monthly record for water deliveries in July: 3.8 billion gallons. Water sales from May through July were 9.3 billion gallons versus 9.4 billion for the same period last fiscal year.

The national economic slow down has affected the Commission's sales tax receipts. After finishing fiscal year 2001-02 6.6% below budget, sales tax collections in the first three months of the fiscal year, were \$380,506 (4.80%) less than the first quarter of fiscal year 2001-02. Based on the prior year's result, this budget line item was reduced 4.8% for fiscal year 2002-03. This revenue source is presently 4.9% below budget. Despite this decline, the Commission has sufficient sales tax funds available to complete all budgeted construction as well as continuing the abatement of general obligation bond property taxes in February, 2003 and 43% support of annual revenue bond debt service requirements.

Falling interest rates caused an increase in investment market values. As a result of these market fluctuations, investment income is substantially above budget. On July 31, 2001, Commission investments were earning approximately 4.5%. Now average yields are down to around 2.5%. This revenue source was \$206,667 more than it was for the first fiscal quarter of last year.

Other income is being derived from construction reimbursements for additional and emergency metering facilities. The projects underway are new metering stations for the Cities of Naperville and Oakbrook Terrace and an emergency connection for the Village of Schaumburg. Schaumburg's regular water supply comes from another wholesale water agency. Construction on these projects is nearing completion.

### **EXPENSE ANALYSIS**

Overall direct water supply costs were 1.9% under budget, although \$0.7 million more than first quarter last fiscal year. Water purchases from the City of Chicago from May through July were substantially the same as last year.

Bond interest costs are 17.5% (\$709,530) less than the previous fiscal period due to a bond refinancing in December, 2001 and reductions in outstanding bond principal. This line item is below budget and will remain so for the entire fiscal year due to a budgeting error. A \$935,000 premium amortization was budgeted as a discount.

The Commission is working with the County of DuPage and the municipalities within the county to solve a water quality issue involving unincorporated areas not presently receiving a Lake Michigan water supply. In this process, the Commission has agreed to incur some legal costs not initially budgeted. This increase in professional service costs will not adversely affect the Commission's water rate.

The contractual services budget is for engineering assistance related to pipeline maintenance and repair projects. The bulk of this work will take place later in the fiscal year.

Insurance costs are substantially more than the prior fiscal year, but significantly less than the current fiscal year budget. Rising property insurance costs are the reason for the change from last fiscal year. Additionally, the Commission had to increase property insurance deductibles, which caused the Commission to increase its self-insurance budget line item by nearly \$1.0 million. Through July 31, 2002, no self-insured losses had been occurred.

### **CONSTRUCTION PROJECTS**

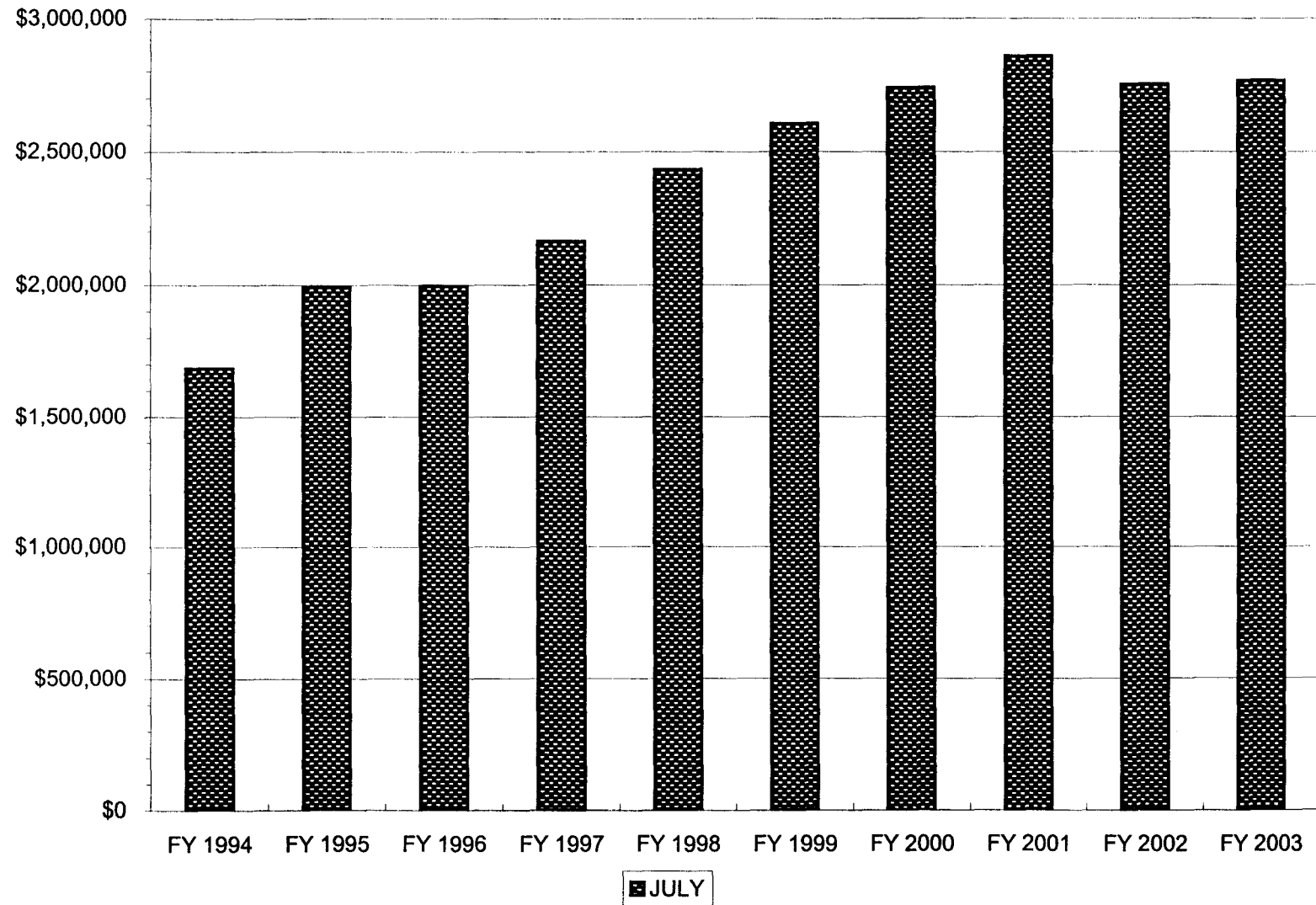
For control purposes, the Commission budgets a line item for construction costs during the fiscal year. For financial reporting purposes these cost are capitalized on an interim basis until fiscal year end. Transmission main construction is nearly \$1,500,000 less than the first quarter of last fiscal year due to progress already made in completing the western transmission loop. Other projects nearing completion are new metering stations for the Cities of Naperville and Oakbrook Terrace. The project to install an emergency connection for the Village of Schaumburg also includes a remote pumping station for the Commission. This station will allow the Commission more effective use of the water stored at Tank Site #1. Such facilities are included in the five-year capital improvement plan for the remaining three tank sites.

### **INVESTMENT PORTFOLIO**

The Commission's investment portfolio totals \$189.4 million. It is earning 1.94% based on market yield and 2.55% based on original purchase price. The benchmark yield adopted by the Commission was 1.60% at July 31, 2002.

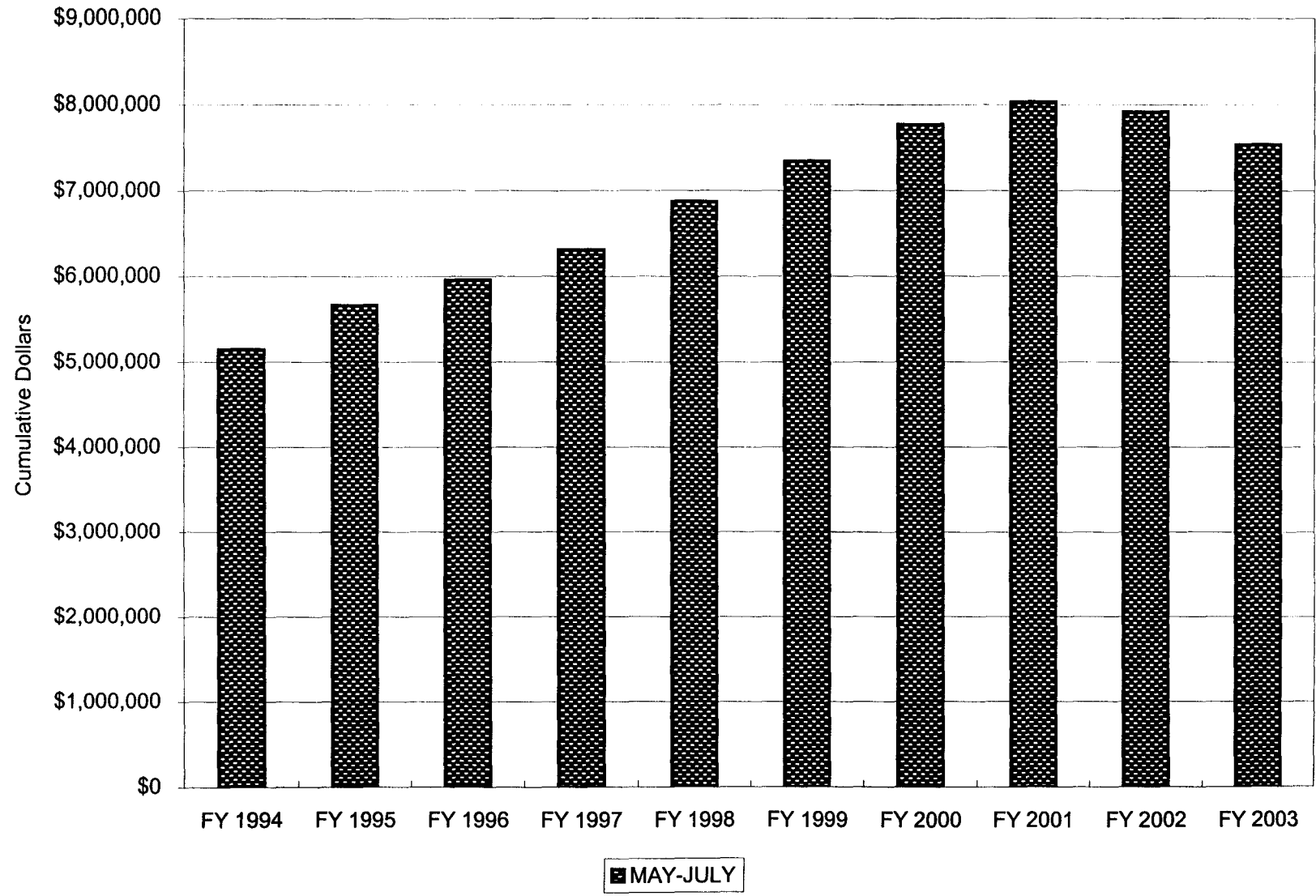
Commission funds are invested as follows: United States Treasury obligations (41.9%), United States Agency obligations (21.7%), the Illinois Funds Money Market Fund (10.6%), the Illinois Funds Prime Funds (12.6%), and certificates of deposit (13.2%). Government money market funds run by the Commission's bond trustees holds \$5,600.

# **DuPage Water Commission Sales Tax Analysis Current Month**





# **DuPage Water Commission Sales Tax Analysis Year to Date**



DU PAGE WATER COMMISSION  
WATER FUND  
GENERAL LEDGER  
BALANCE SHEET - CURRENT FISCAL YEAR CHANGES  
July 31, 2002

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	July 31, 2002 TOTAL WATER FUND (ALL ACCOUNTS)	April 30, 2002 TOTAL WATER FUND (ALL ACCOUNTS)	CURRENT FISCAL YEAR INCREASE (DECREASE)
<b>ASSETS</b>			
CASH	43,113.68	14,929.52	28,184.16
INVESTMENTS	189,447,309.98	191,681,644.80	(2,234,334.82)
DUE FROM OTHER FUNDS	0.00	0.00	0.00
CUSTOMER ACCOUNTS RECEIVABLE	8,458,258.19	6,082,165.09	2,376,093.10
SALES TAX RECEIVABLE	7,920,000.00	7,920,000.00	0.00
ACCOUNTS RECEIVABLE-OTHER	564,042.81	1,287,832.41	(723,789.60)
INTEREST RECEIVABLE	1,624,008.32	1,243,835.01	380,173.31
INVENTORIES & PREPAIDS	193,733.48	531,437.50	(337,704.02)
FIXED ASSETS	421,957,816.04	420,316,806.65	1,641,009.39
CONSTRUCTION IN PROGRESS	19,655,993.80	19,655,993.80	0.00
LESS: ACCUMULATED DEPRECIATION	(61,358,729.49)	(59,785,050.29)	(1,573,679.20)
DEFERRED WATER SUPPLY CONTRACT COST	17,962,587.40	20,221,726.40	(2,259,139.00)
<b>TOTAL ASSETS</b>	<b>606,468,134.21</b>	<b>609,171,320.89</b>	<b>(2,703,186.68)</b>
<b>LIABILITIES &amp; EQUITY</b>			
ACCOUNTS PAYABLE	5,055,605.49	3,982,867.90	1,072,737.59
ACCRUED PAYROLL & TAXES	230,457.09	197,760.38	32,696.71
DUE TO OTHER FUNDS	0.00	0.00	0.00
BONDS PAYABLE CURRENT	18,005,000.00	17,550,000.00	455,000.00
ACCRUED INTEREST	4,024,747.71	5,129,812.08	(1,105,064.37)
ACCRUED LIABILITIES	580,413.49	465,903.63	114,509.86
CONTRACT RETENTION	2,032,086.51	1,999,014.59	33,071.92
OTHER DEPOSITS AND DEFERRED CREDITS	0.00	0.00	0.00
DEFERRED REVENUE	3,178,712.16	3,287,168.91	(108,456.75)
LONG TERM BONDS PAYABLE	219,358,419.45	228,850,622.09	(9,492,202.64)
<b>TOTAL LIABILITIES</b>	<b>252,465,441.90</b>	<b>261,463,149.58</b>	<b>(8,997,707.68)</b>
<b>NET ASSETS</b>			
UNRESTRICTED FUNDS			
HELD FOR EMERGENCY REPAIRS AND OTHER CONTINGENCIES (a)	27,300,000.00	27,300,000.00	0.00
RESERVED FOR WATER RATE STABILIZATION	48,815,204.89	46,471,405.89	2,343,799.00
RESERVED FOR THE ACQUISITION OF CAPITAL ASSETS	60,235,449.79	53,471,628.45	6,763,821.34
<b>TOTAL UNRESTRICTED FUNDS</b>	<b>136,350,654.68</b>	<b>127,243,034.34</b>	<b>9,107,620.34</b>
RESTRICTED BY ORDINANCE/RESOLUTION	45,996,539.33	48,906,282.50	(2,909,743.17)
INVESTED IN PROPERTY PLANT AND EQUIPMENT	171,655,498.30	171,558,854.47	96,643.83
<b>TOTAL NET ASSETS</b>	<b>354,002,692.31</b>	<b>347,708,171.31</b>	<b>6,294,521.00</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>606,468,134.21</b>	<b>609,171,320.89</b>	<b>(2,703,186.68)</b>

a - ESTABLISHED AT 5% OF ORIGINAL CONSTRUCTION COSTS AS OF  
MAY 1, 1992; INCREASED ANNUALLY BY THE ENGINEERING NEWS  
RECORD CONSTRUCTION INDEX

ASSETS	TOTAL WATER FUND ALL ACCOUNTS	WATER FUND DEPOSITORY ACCOUNTS	OPER & MAINT ACCOUNT	REVENUE BOND INTEREST ACCOUNT	REVENUE BOND PRINCIPAL ACCOUNT	REVENUE BOND DEBT SERVICE RESERVE ACCOUNT	OPER & MAINT RESERVE ACCOUNT	DEPRECIATION ACCOUNT	GENERAL ACCOUNT
CASH	43,113.68	36,571.93	5,859.42	0.00	0.00	682.33	0.00	0.00	0.00
INVESTMENTS	189,447,309.98	3,142,140.23	12,685,983.58	2,067,054.59	2,420,562.69	17,958,833.39	9,898,567.02	5,766,411.68	135,507,756.80
DUE FROM OTHER FUNDS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CUSTOMER ACCOUNTS RECEIVABLE	8,458,258.19	8,458,258.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES TAX RECEIVABLE	7,920,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,920,000.00
ACCOUNTS RECEIVABLE-OTHER	564,042.81	564,042.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INTEREST RECEIVABLE	1,624,008.32	0.00	0.00	29,411.25	33,766.88	0.00	78,020.83	33,750.00	1,449,059.36
INVENTORIES & PREPAIDS	193,733.48	193,733.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FIXED ASSETS	421,957,816.04	421,957,816.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONSTRUCTION IN PROGRESS	19,655,993.80	19,655,993.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LESS: ACCUMULATED DEPRECIATION	(61,358,729.49)	(61,358,729.49)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEFERRED WATER SUPPLY CONTRACT COST	17,962,587.40	17,962,587.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL ASSETS</b>	<b>606,468,134.21</b>	<b>410,612,414.39</b>	<b>12,691,843.00</b>	<b>2,096,465.84</b>	<b>2,454,329.57</b>	<b>17,959,515.72</b>	<b>9,976,587.85</b>	<b>5,800,161.68</b>	<b>144,876,816.16</b>
<b>LIABILITIES &amp; EQUITY</b>									
ACCOUNTS PAYABLE	5,055,605.49	0.00	5,055,605.49	0.00	0.00	0.00	0.00	0.00	0.00
ACCRUED PAYROLL & TAXES	230,457.09	0.00	230,457.09	0.00	0.00	0.00	0.00	0.00	0.00
DUE TO OTHER FUNDS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BONDS PAYABLE CURRENT	18,005,000.00	7,203,750.00	0.00	0.00	2,401,250.00	0.00	0.00	0.00	8,400,000.00
ACCRUED INTEREST	4,024,747.71	0.00	0.00	2,056,976.88	0.00	0.00	0.00	0.00	1,967,770.83
ACCRUED LIABILITIES	580,413.49	0.00	580,413.49	0.00	0.00	0.00	0.00	0.00	0.00
CONTRACT RETENTION	2,032,086.51	0.00	2,032,086.51	0.00	0.00	0.00	0.00	0.00	0.00
OTHER DEPOSITS AND DEFERRED CREDITS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEFERRED REVENUE	3,178,712.16	3,178,712.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LONG TERM BONDS PAYABLE	219,358,419.45	219,358,419.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>252,465,441.90</b>	<b>229,740,881.61</b>	<b>7,898,562.58</b>	<b>2,056,976.88</b>	<b>2,401,250.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>10,367,770.83</b>
<b>NET ASSETS</b>									
UNRESTRICTED FUNDS									
HELD FOR EMERGENCY REPAIRS AND OTHER CONTINGENCIES (a)	27,300,000.00	0.00	0.00	0.00	0.00	122,303.22	390,027.01	800,161.68	25,987,508.09
RESERVED FOR WATER RATE STABILIZATION	48,815,204.89	9,216,034.48	0.00	0.00	0.00	0.00	0.00	0.00	39,599,170.41
RESERVED FOR THE ACQUISITION OF CAPITAL ASSETS	60,235,449.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	60,235,449.79
<b>TOTAL UNRESTRICTED FUNDS</b>	<b>136,350,654.68</b>	<b>9,216,034.48</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>122,303.22</b>	<b>390,027.01</b>	<b>800,161.68</b>	<b>125,822,128.29</b>
RESTRICTED BY ORDINANCE/RESOLUTION	45,996,539.33	0.00	4,793,280.42	39,488.96	53,079.57	17,837,212.50	9,586,560.84	5,000,000.00	8,686,917.04
INVESTED IN PROPERTY PLANT AND EQUIPMENT	171,655,498.30	171,655,498.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL NET ASSETS</b>	<b>354,002,692.31</b>	<b>180,871,532.78</b>	<b>4,793,280.42</b>	<b>39,488.96</b>	<b>53,079.57</b>	<b>17,959,515.72</b>	<b>9,976,587.85</b>	<b>5,800,161.68</b>	<b>134,509,045.33</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>606,468,134.21</b>	<b>410,612,414.39</b>	<b>12,691,843.00</b>	<b>2,096,465.84</b>	<b>2,454,329.57</b>	<b>17,959,515.72</b>	<b>9,976,587.85</b>	<b>5,800,161.68</b>	<b>144,876,816.16</b>

a - ESTABLISHED AT 5% OF ORIGINAL CONSTRUCTION COSTS AS OF  
MAY 1, 1992; INCREASED ANNUALLY BY THE ENGINEERING NEWS  
RECORD CONSTRUCTION INDEX

DU PAGE WATER COMMISSION  
WATER FUND  
GENERAL LEDGER  
BALANCE SHEET - GENERAL ACCOUNT DETAIL  
July 31, 2002

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ASSETS	TOTAL GENERAL ACCOUNT	WATER FUND SUBACCOUNT	SALES TAXES SUBACCOUNT	GO BOND DEBT SERVICE SUBACCOUNT
CASH	0.00	0.00	0.00	0.00
INVESTMENTS	135,507,756.80	49,105,949.33	73,395,816.27	13,005,991.20
DUE FROM OTHER FUNDS	0.00	0.00	0.00	0.00
CUSTOMER ACCOUNTS RECEIVABLE	0.00	0.00	0.00	0.00
SALES TAX RECEIVABLE	7,920,000.00	0.00	7,920,000.00	0.00
ACCOUNTS RECEIVABLE-OTHER	0.00	0.00	0.00	0.00
INTEREST RECEIVABLE	1,449,059.36	480,729.17	670,746.02	297,584.17
INVENTORIES & PREPAIDS	0.00	0.00	0.00	0.00
FIXED ASSETS	0.00	0.00	0.00	0.00
CONSTRUCTION IN PROGRESS	0.00	0.00	0.00	0.00
LESS: ACCUMULATED DEPRECIATION	0.00	0.00	0.00	0.00
DEFERRED WATER SUPPLY CONTRACT COST	0.00	0.00	0.00	0.00
<b>TOTAL ASSETS</b>	<b>144,876,816.16</b>	<b>49,586,678.50</b>	<b>81,986,562.29</b>	<b>13,303,575.37</b>
<b>LIABILITIES &amp; EQUITY</b>				
ACCOUNTS PAYABLE	0.00	0.00	0.00	0.00
ACCRUED PAYROLL & TAXES	0.00	0.00	0.00	0.00
DUE TO OTHER FUNDS	0.00	0.00	0.00	0.00
BONDS PAYABLE CURRENT	8,400,000.00	0.00	0.00	8,400,000.00
ACCRUED INTEREST	1,967,770.83	0.00	0.00	1,967,770.83
ACCRUED LIABILITIES	0.00	0.00	0.00	0.00
CONTRACT RETENTION	0.00	0.00	0.00	0.00
OTHER DEPOSITS AND DEFERRED CREDITS	0.00	0.00	0.00	0.00
DEFERRED REVENUE	0.00	0.00	0.00	0.00
LONG TERM BONDS PAYABLE	0.00	0.00	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>10,367,770.83</b>	<b>0.00</b>	<b>0.00</b>	<b>10,367,770.83</b>
<b>NET ASSETS</b>				
UNRESTRICTED FUNDS				
HELD FOR EMERGENCY REPAIRS AND OTHER CONTINGENCIES	25,987,508.09	9,987,508.09	16,000,000.00	0.00
RESERVED FOR WATER RATE STABILIZATION	39,599,170.41	39,599,170.41	0.00	0.00
RESERVED FOR THE ACQUISITION OF CAPITAL ASSETS	60,235,449.79	0.00	60,235,449.79	0.00
<b>TOTAL UNRESTRICTED FUNDS</b>	<b>125,822,128.29</b>	<b>49,586,678.50</b>	<b>76,235,449.79</b>	<b>0.00</b>
RESTRICTED BY ORDINANCE/RESOLUTION	8,686,917.04	0.00	5,751,112.50	2,935,804.54
INVESTED IN PROPERTY PLANT AND EQUIPMENT	0.00	0.00	0.00	0.00
<b>TOTAL NET ASSETS</b>	<b>134,509,045.33</b>	<b>49,586,678.50</b>	<b>81,986,562.29</b>	<b>2,935,804.54</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>144,876,816.16</b>	<b>49,586,678.50</b>	<b>81,986,562.29</b>	<b>13,303,575.37</b>

DU PAGE WATER COMMISSION  
WATER FUND  
GENERAL LEDGER  
STATEMENT OF REVENUES & EXPENDITURES  
July 31, 2002

PAGE 9

REVENUE	CURRENT MONTH ACTUAL	Y-T-D ACTUAL	Y-T-D BUDGET	Y-T-D BUDGET VARIANCE FAVORABLE (UNFAVORABLE)	% OF Y-T-D BUDGET
OPERATIONS & MAINTENANCE REVENUES	5,117,027.18	12,494,453.46	12,459,268.00	35,185.46	100.3%
FIXED COST REVENUES	847,063.15	2,541,189.45	2,541,189.50	(0.05)	100.0%
SUBSEQUENT CUSTOMER DIFFERENTIAL REVENUE	91,565.70	257,772.23	289,657.56	(31,885.33)	89.0%
SALES TAXES	2,766,172.80	7,540,579.88	7,925,991.50	(385,411.62)	95.1%
INVESTMENT INCOME	991,114.71	2,115,777.92	1,142,123.29	973,654.63	185.2%
OTHER INCOME	56,509.57	204,187.02	93,449.32	110,737.70	218.5%
<b>TOTAL REVENUE</b>	<b>9,869,453.11</b>	<b>25,153,959.96</b>	<b>24,451,679.17</b>	<b>702,280.79</b>	<b>102.9%</b>
<b>EXPENSES</b>					
PERSONAL SERVICES	193,059.31	575,380.81	613,527.33	38,146.52	93.8%
PROFESSIONAL SERVICES	95,783.85	129,543.71	62,842.30	(66,701.41)	206.1%
CONTRACTUAL SERVICES	10,314.45	84,232.18	203,123.01	118,890.83	41.5%
INSURANCE	0.00	304,736.52	502,636.78	197,900.26	60.6%
ADMINISTRATIVE COSTS	5,401.79	27,174.72	33,150.25	5,975.53	82.0%
WATER SUPPLY COSTS	5,281,862.15	12,785,994.73	13,027,694.53	241,699.80	98.1%
BOND INTEREST EXPENSE	1,117,731.85	3,350,436.74	3,804,522.25	454,085.51	88.1%
LAND AND RIGHT OF WAY	2,995.00	2,995.00	1,511.05	(1,483.95)	198.2%
DEPRECIATION/CAPITAL EQUIPMENT PURCHASES	524,559.73	1,598,944.55	1,688,381.99	89,437.44	94.7%
<b>TOTAL OPERATING EXPENSES</b>	<b>7,231,708.13</b>	<b>18,859,438.96</b>	<b>19,937,389.49</b>	<b>1,077,950.53</b>	<b>94.6%</b>
<b>NET OPERATING INCOME</b>	<b>2,637,744.98</b>	<b>6,294,521.00</b>	<b>4,514,289.68</b>	<b>1,780,231.32</b>	<b>139.4%</b>
CONSTRUCTION EXPENDITURES	425,357.95	1,641,009.39	2,087,895.88	446,886.49	78.6%
<b>NET FUND TRANSACTIONS</b>	<b>2,212,387.03</b>	<b>4,653,511.61</b>	<b>2,426,393.80</b>	<b>2,227,117.81</b>	<b>191.8%</b>
BEGINNING NET ASSETS		347,708,171.31			
ADD CONSTRUCTION EXPENDITURES TO BE CAPITALIZED		1,641,009.39			
<b>ENDING NET ASSETS</b>		<b>354,002,692.31</b>			

DU PAGE WATER COMMISSION  
WATER FUND  
GENERAL LEDGER  
BALANCE SHEET - COMPARISON TO PRIOR FISCAL YEAR  
July 31, 2002

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	July 31, 2002 TOTAL WATER FUND (ALL ACCOUNTS)	July 31, 2001 TOTAL WATER FUND (ALL ACCOUNTS)	INCREASE (DECREASE) VS. PRIOR FISCAL YEAR
<b>ASSETS</b>			
CASH	43,113.68	11,624.85	31,488.83
INVESTMENTS	189,447,309.98	173,029,971.11	16,417,338.87
DUE FROM OTHER FUNDS	0.00	0.00	0.00
CUSTOMER ACCOUNTS RECEIVABLE	8,458,258.19	8,234,246.68	224,011.51
SALES TAX RECEIVABLE	7,920,000.00	7,950,000.00	(30,000.00)
ACCOUNTS RECEIVABLE-OTHER	564,042.81	302,287.21	261,755.60
INTEREST RECEIVABLE	1,624,008.32	1,304,283.43	319,724.89
INVENTORIES & PREPAIDS	193,733.48	227,366.35	(33,632.87)
FIXED ASSETS	421,957,816.04	401,442,647.11	20,515,168.93
CONSTRUCTION IN PROGRESS	19,655,993.80	30,733,576.60	(11,077,582.80)
LESS: ACCUMULATED DEPRECIATION	(61,358,729.49)	(55,030,641.35)	(6,328,088.14)
DEFERRED WATER SUPPLY CONTRACT COST	17,962,587.40	25,305,572.31	(7,342,984.91)
<b>TOTAL ASSETS</b>	<b>606,468,134.21</b>	<b>593,510,934.30</b>	<b>12,957,199.91</b>
<b>LIABILITIES &amp; EQUITY</b>			
ACCOUNTS PAYABLE	5,055,605.49	4,824,331.59	231,273.90
ACCRUED PAYROLL & TAXES	230,457.09	191,284.25	39,172.84
DUE TO OTHER FUNDS	0.00	0.00	0.00
BONDS PAYABLE CURRENT	18,005,000.00	17,095,000.00	910,000.00
ACCRUED INTEREST	4,024,747.71	4,800,807.09	(776,059.38)
ACCRUED LIABILITIES	580,413.49	535,352.28	45,061.21
CONTRACT RETENTION	2,032,086.51	1,432,581.05	599,505.46
OTHER DEPOSITS AND DEFERRED CREDITS	0.00	0.00	0.00
DEFERRED REVENUE	3,178,712.16	3,202,008.56	(23,296.40)
LONG TERM BONDS PAYABLE	219,358,419.45	238,352,002.51	(18,993,583.06)
<b>TOTAL LIABILITIES</b>	<b>252,465,441.90</b>	<b>270,433,367.33</b>	<b>(17,967,925.43)</b>
<b>NET ASSETS</b>			
UNRESTRICTED FUNDS			
HELD FOR EMERGENCY REPAIRS AND OTHER CONTINGENCIES (a)	27,300,000.00	26,500,000.00	800,000.00
RESERVED FOR WATER RATE STABILIZATION	48,815,204.89	41,623,460.57	7,191,744.32
RESERVED FOR THE ACQUISITION OF CAPITAL ASSETS	60,235,449.79	53,216,782.13	7,018,667.66
<b>TOTAL UNRESTRICTED FUNDS</b>	<b>136,350,654.68</b>	<b>121,340,242.70</b>	<b>15,010,411.98</b>
RESTRICTED BY ORDINANCE/RESOLUTION	45,996,539.33	44,500,672.11	1,495,867.22
INVESTED IN PROPERTY PLANT AND EQUIPMENT	171,655,498.30	157,236,652.16	14,418,846.14
<b>TOTAL NET ASSETS</b>	<b>354,002,692.31</b>	<b>323,077,566.97</b>	<b>30,925,125.34</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>606,468,134.21</b>	<b>593,510,934.30</b>	<b>12,957,199.91</b>

a - ESTABLISHED AT 5% OF ORIGINAL CONSTRUCTION COSTS AS OF  
MAY 1, 1992; INCREASED ANNUALLY BY THE ENGINEERING NEWS  
RECORD CONSTRUCTION INDEX

DU PAGE WATER COMMISSION  
WATER FUND  
GENERAL LEDGER  
COMPARATIVE STATEMENT OF REVENUES & EXPENDITURES  
July 31, 2002

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REVENUE	July 31, 2002 Y-T-D CURRENT FISCAL YEAR	July 31, 2001 Y-T-D PRIOR FISCAL YEAR	INCREASE (DECREASE)	% INCREASE (% DECREASE)
OPERATIONS & MAINTENANCE REVENUES	12,494,453.46	12,440,345.19	54,108.27	0.4%
FIXED COST REVENUES	2,541,189.45	3,344,139.03	(802,949.58)	-24.0%
SUBSEQUENT CUSTOMER DIFFERENTIAL REVENUE	257,772.23	234,730.70	23,041.53	9.8%
SALES TAXES	7,540,579.88	7,921,087.08	(380,507.20)	-4.8%
INVESTMENT INCOME	2,115,777.92	1,909,111.03	206,666.89	10.8%
OTHER INCOME	204,187.02	3,102.34	201,084.68	6481.7%
<b>TOTAL REVENUE</b>	<b>25,153,959.96</b>	<b>25,852,515.37</b>	<b>(698,555.41)</b>	<b>-2.7%</b>
EXPENSES				
PERSONAL SERVICES	575,380.81	558,631.79	16,749.02	3.0%
PROFESSIONAL SERVICES	129,543.71	54,279.82	75,263.89	138.7%
CONTRACTUAL SERVICES	84,232.18	39,907.12	44,325.06	111.1%
INSURANCE	304,736.52	228,359.82	76,376.70	33.4%
ADMINISTRATIVE COSTS	27,174.72	17,914.98	9,259.74	51.7%
WATER SUPPLY COSTS	12,785,994.73	12,091,126.68	694,868.05	5.7%
BOND INTEREST EXPENSE	3,350,436.74	4,059,967.05	(709,530.31)	-17.5%
LAND AND RIGHT OF WAY	2,995.00	3,495.00	(500.00)	-14.3%
DEPRECIATION/CAPITAL EQUIPMENT PURCHASES	1,598,944.55	1,560,505.31	38,439.24	2.5%
<b>TOTAL OPERATING EXPENSES</b>	<b>18,859,438.96</b>	<b>18,614,187.57</b>	<b>245,251.39</b>	<b>1.3%</b>
NET OPERATING INCOME	6,294,521.00	7,238,327.80	(943,806.80)	-13.0%
CONSTRUCTION EXPENDITURES	1,641,009.39	3,153,409.91	(1,512,400.52)	-48.0%
<b>NET FUND TRANSACTIONS</b>	<b>4,653,511.61</b>	<b>4,084,917.89</b>	<b>568,593.72</b>	<b>13.9%</b>
BEGINNING NET ASSETS	347,708,171.31	315,839,239.17		
ADD CONSTRUCTION EXPENDITURES TO BE CAPITALIZED	1,641,009.39	3,153,409.91		
<b>ENDING NET ASSETS</b>	<b>354,002,692.31</b>	<b>323,077,566.97</b>		

FUND SOURCE	COUPON RATE	PURCHASE DATE	MATURITY DATE	PURCHASED TO YIELD	MARKET YIELD	PAR VALUE	MARKET	AMORTIZED DISCOUNT (PREMIUM)	PURCHASE PRICE	ACCRUED INTEREST 07/31/02
<b>Water Fund Depository Accounts (WF-1210)</b>										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 1,383,792.49	\$ 1,383,792.49	\$ 0.00	\$ 1,383,792.49	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	1,758,347.74	1,758,347.74	0.00	1,758,347.74	0.00
				1.807%	1.807%	3,142,140.23	3,142,140.23	0.00	3,142,140.23	0.00
<b>Water Fund Oper. &amp; Maint. Acct. (WF-1211)</b>										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 7,726,892.16	\$ 7,726,892.16	\$ 0.00	\$ 7,726,892.16	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	4,959,091.42	4,959,091.42	0.00	4,959,091.42	0.00
				1.792%	1.792%	12,685,983.58	12,685,983.58	0.00	12,685,983.58	0.00
<b>Revenue Bond Interest Account (WF-1212)</b>										
One Group Government Money Market	1.150%	07/31/02	08/01/02	1.150%	1.150%	\$ 594.59	\$ 594.59	\$ 0.00	\$ 594.59	\$ 0.00
U. S. Treas. Notes (Banc One Trust Company)	5.750%	06/11/02	10/31/02	1.739%	1.600%	1,376,000.00	1,389,760.00	(7,256.25)	1,397,016.25	19,780.00
U. S. Treas. Notes (Banc One Trust Company)	5.750%	07/10/02	10/31/02	1.701%	1.600%	670,000.00	676,700.00	(1,517.97)	678,217.97	9,631.25
				1.726%	1.600%	2,046,594.59	2,067,054.59	(8,774.22)	2,075,828.81	29,411.25
<b>Revenue Bond Principal (WF-1213)</b>										
One Group Government Money Market	1.150%	07/31/02	08/01/02	1.150%	1.150%	\$ 605.66	\$ 605.66	\$ 0.00	\$ 605.66	\$ 0.00
U. S. Treas. Notes (Banc One Trust Company)	5.750%	06/11/02	04/30/03	2.154%	1.650%	1,581,000.00	1,628,677.03	(1,914.49)	1,630,591.52	22,726.88
U. S. Treas. Notes (Banc One Trust Company)	5.750%	07/10/02	04/30/03	2.148%	1.650%	768,000.00	791,280.00	(690.00)	791,970.00	11,040.00
				2.152%	1.650%	2,349,605.66	2,420,562.69	(2,604.49)	2,423,167.18	33,766.88
<b>Revenue Bond Debt Svc. Reserve (WF-1214)</b>										
U. S. Treas. Bills (Banc One Trust)	0.000%	04/12/02	10/10/02	1.945%	1.690%	\$ 18,018,000.00	\$ 17,958,833.39	\$ 112,955.34	\$ 17,845,878.05	\$ 0.00
				1.945%	1.690%	18,018,000.00	17,958,833.39	112,955.34	17,845,878.05	0.00
<b>Water Fund Oper. &amp; Maint. Res. (WF-1215)</b>										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 445,641.02	\$ 445,641.02	\$ 0.00	\$ 445,641.02	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	208,082.25	208,082.25	0.00	208,082.25	0.00
U. S. Treas. Notes (Banc One Capital Markets)	4.250%	12/12/01	11/15/03	2.967%	1.770%	5,000,000.00	5,155,468.75	36,523.44	5,118,945.31	44,270.83
U. S. Treas. Notes (RBC Dain Rauscher)	3.375%	06/13/02	04/30/04	2.957%	2.060%	4,000,000.00	4,089,375.00	59,375.00	4,030,000.00	33,750.00
				2.885%	1.891%	9,653,723.27	9,898,567.02	95,898.44	9,802,668.58	78,020.83
<b>Water Fund Depreciation Account (WF-1216)</b>										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 931,120.18	\$ 931,120.18	\$ 0.00	\$ 931,120.18	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	745,916.50	745,916.50	0.00	745,916.50	0.00
U. S. Treas. Notes (RBC Dain Rauscher)	3.375%	06/13/02	04/30/04	2.957%	2.060%	4,000,000.00	4,089,375.00	59,375.00	4,030,000.00	33,750.00
				2.620%	1.983%	5,677,036.68	5,766,411.68	59,375.00	5,707,036.68	33,750.00



FUND SOURCE	COUPON RATE	PURCHASE DATE	MATURITY DATE	PURCHASED TO YIELD	MARKET YIELD	PAR VALUE	MARKET	AMORTIZED DISCOUNT (PREMIUM)	PURCHASE PRICE	ACCRUED INTEREST 07/31/02
Water Fund General Account (WF-1217)										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 1,374,906.05	\$ 1,374,906.05	\$ 0.00	\$ 1,374,906.05	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	6,410,855.78	6,410,855.78	0.00	6,410,855.78	0.00
F.H.L.B. (ABN AMRO)	6.375%	07/20/01	11/15/02	3.948%	1.783%	5,000,000.00	5,065,500.00	(87,894.10)	5,153,394.10	66,406.25
U. S. Treas. Strip-int (ABN AMRO)	0.000%	03/19/02	05/15/03	2.661%	1.120%	10,000,000.00	9,912,500.00	213,724.50	9,698,775.50	0.00
F.H.L.B. (D. Rauscher)	6.875%	11/30/01	08/15/03	2.951%	1.880%	5,000,000.00	5,253,125.00	(71,193.14)	5,324,318.14	157,552.08
U. S. Treas. Notes (Dain Rauscher)	7.250%	01/31/02	05/15/04	3.204%	2.050%	10,000,000.00	10,904,687.50	20,387.50	10,884,300.00	151,041.67
F.H.L.B. (RBC D. Rauscher)	3.625%	06/14/02	10/15/04	3.403%	2.750%	10,000,000.00	10,184,375.00	136,718.75	10,047,658.25	105,729.17
				2.968%	1.927%	\$ 47,785,761.83	\$ 49,105,949.33	\$ 211,743.51	\$ 48,894,205.82	\$ 480,729.17
Sales Tax Funds (WF-1230)										
Illinois Funds-Money Market	1.757%	07/31/02	08/01/02	1.757%	1.757%	\$ 8,053,325.51	\$ 8,053,325.51	\$ 0.00	\$ 8,053,325.51	\$ 0.00
Illinois Funds-Prime Fund	1.846%	07/31/02	08/01/02	1.846%	1.846%	9,800,934.51	9,800,934.51	0.00	9,800,934.51	0.00
F.H.L.M.C. (D. Rauscher)	6.625%	06/13/01	08/15/02	4.003%	1.661%	5,000,000.00	5,009,550.00	(138,496.88)	5,148,046.88	151,822.92
Cert. of Deposit (West Suburban Bank)	2.970%	10/13/01	10/15/02	2.970%	2.970%	64,900.00	64,900.00	0.00	64,900.00	1,536.74
Cert. of Deposit (Suburban Bank & Trust)	2.360%	10/16/01	10/16/02	2.360%	2.360%	6,000,000.00	6,000,000.00	0.00	6,000,000.00	111,728.22
Cert. of Deposit (Oak Brook Bank)	2.250%	01/15/02	01/15/03	2.250%	2.250%	6,000,000.00	6,000,000.00	0.00	6,000,000.00	72,863.01
U. S. Treas. Strip-pm (ABN AMRO)	0.000%	03/20/02	02/15/03	2.547%	1.580%	5,000,000.00	4,957,812.50	71,662.50	4,886,150.00	0.00
Cert. of Deposit (Mid America Bank)	2.750%	04/12/02	04/15/03	2.750%	2.750%	6,000,000.00	6,000,000.00	0.00	6,000,000.00	49,726.03
Cert. of Deposit (Winfield Community Bank)	3.000%	06/17/02	06/17/03	3.000%	3.000%	1,000,000.00	1,000,000.00	0.00	1,000,000.00	3,616.44
Cert. of Deposit (West Suburban Bank)	3.000%	07/16/02	07/16/03	3.000%	3.000%	5,935,100.00	5,935,100.00	0.00	5,935,100.00	7,317.25
F.H.L.B. (D. Rauscher)	6.875%	11/30/01	08/15/03	2.951%	1.880%	5,000,000.00	5,253,125.00	(71,193.14)	5,324,318.14	157,552.08
U. S. Treas. Notes (Banc One Capital Markets)	4.250%	12/12/01	11/15/03	2.967%	1.770%	5,000,000.00	5,155,468.75	36,523.43	5,118,945.32	44,270.83
F.H.L.B. (ABN AMRO)	3.375%	06/21/02	05/14/04	3.002%	2.421%	10,000,000.00	10,165,600.00	96,850.00	10,068,750.00	70,312.50
				2.608%	2.141%	\$ 72,854,260.02	\$ 73,395,816.27	\$ (4,654.09)	\$ 73,400,470.36	\$ 670,746.02
2001 G. O. Bonds Debt Service (WF-1243)										
ABN AMRO Government Money Market	1.554%	07/31/02	08/01/02	1.554%	1.554%	\$ 4,416.51	\$ 4,416.51	\$ 0.00	\$ 4,416.51	\$ 5.00
U. S. Treas. Notes (LaSalle Bank)	6.125%	03/08/02	08/31/02	1.967%	1.670%	2,000,000.00	2,006,562.50	(32,656.25)	2,039,218.75	51,041.67
U. S. Treas. Notes (LaSalle Bank)	5.500%	03/08/02	02/28/03	2.450%	1.620%	10,758,000.00	10,995,012.19	(78,163.59)	11,073,175.78	246,537.50
				2.375%	1.628%	\$ 12,762,416.51	\$ 13,005,991.20	\$ (110,819.84)	\$ 13,116,811.04	\$ 297,584.17
TOTAL ALL FUNDS				2.554%	1.949%	\$ 186,975,522.37	\$ 189,447,309.98	\$ 353,119.65	\$ 189,094,190.33	\$ 1,624,008.32
July 31, 2002	90 DAY US TREASURY YIELD			1.600%						

From: Jim\_Mochel@ajg.com  
Sent: Wednesday, July 24, 2002 6:20 PM  
To: Rick Skiba  
Subject: Re: FW: Program Structure Alternatives



4-5-02 market ltr.doc

Rick,

The excess liability market is hardening. I think the 20-25% increase figure I gave you might be light. In some cases, I have seen the premiums double. I also don't know what position your liability carrier, Kempes, is going to take with their renewal. They are part of Kemper Companies and Kemper has been reviewing their market strategy. In some cases, we have seen them pulling out of the market. I don't know yet if that will apply to their 'special district' program.

We are going to conduct a complete marketing effort on behalf of the Commission for all of the lines of coverage, except the WC. I believe the current pool you are in, Illinois Public Risk Fund, is the most competitive and stable market for you at this time.

If the finance committee would like to meet with me, please let me know.

Jim

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James R. Mochel, CPCU, ARM  
ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC.  
Public & Non-profit Division  
Two Pierce Place  
Itasca, IL 60143-3141  
Tel. 630/285-4350, Fax 630/285-4062  
jim\_mochel@ajg.com



# ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC.

## PUBLIC & NONPROFIT DIVISION

James R. Mochel, CPCU, ARM  
Executive Vice President, Public Entity Group  
Director, National Public Entity Division

April 5, 2002

Mr. Richard H. Skiba  
Financial Administrator  
DuPage Water Commission  
600 E. Butterfield Road  
Elmhurst, IL 60126

Re: Risk Management Program

Dear Rick:

The insurance marketplace continues to be in a state of flux that is keeping us from getting estimates of your renewal costs or options for your November renewal.

Insurance companies purchase reinsurance to protect their exposure either to a single loss or to an aggregate amount of losses. This is one of the prime vehicles for generating capacity in the insurance marketplace. Insurance companies enter into treaties, or contracts, with their reinsurers at various times of the year. The two biggest dates for the renewal of these treaties are January 1<sup>st</sup> and July 1<sup>st</sup> of each year. The underwriters simply are not willing to even discuss a November account until after July 1<sup>st</sup> and they know what their reinsurance costs will be.

At this point in time, I do not see capacity issues with your liability program. I expect pricing to increase in the area of 20-25% but do not anticipate any problems in securing the limits you have had in the past. I do not believe that utilizing large deductibles or retentions will have an impact large enough to offset the added exposure to the commission.

Your property program will still be difficult to place this year, even with significantly larger retentions. The issue here is the amount of available capacity for the underground piping. Renewal pricing will be totally dependent on how the program is structured.

My recommendation is we begin marketing your renewal on July 1<sup>st</sup> with quotes due back from underwriters by September 1<sup>st</sup>. This will still allow the commission ample time to review the alternatives before the November renewal.

Regards,

James R. Mochel, CPCU, ARM