

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

STATEMENTS OF INCOME AND INDEPENDENT
ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES

For the Years Ended November 30, 2012 and 2011

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

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Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund
Libertyville, Illinois

We have performed the procedures contained in Attachment I to this report, which were agreed to by the management of Lake County Public Works Department, solely to assist you in evaluating the validity of the accompanying Statements of Income and Expenses for the year ended November 30, 2012 for the Northeast Central Wholesale Sewer System. Similar procedures were performed for the year ended November 30, 2011 by other auditors whose final report was issued July 30, 2012. The Lake County Public Works Department's management is responsible for the Statements of Income and Expenses. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

The attached Statements of Income and Expenses were not prepared in accordance with accounting principles generally accepted in the United States of America and only represent revenues and expenses associated with the Northeast Central Wholesale Sewer System's operations. They do not include all revenue and expense categories as shown in the Department's fiscal year 2012 and 2011 audited financial statements. In addition, they include cash flow and replacement items that are not reported as an expense in those statements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statements of Income and Expenses. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of Lake County Public Works Department and its regional customers, and is not intended to be and should not be used by anyone other than these specified parties.

Certain attachments in this report are in the form of a forecast and were created using information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecasted information. We have not audited the forecasted information and, accordingly, do not express an opinion or any other form of assurance on the accompanying attachments. Furthermore, there will usually be differences between the forecasted and actual results since some events and circumstances frequently do not occur as expected, and those differences may be material.



Madison, Wisconsin
August 5, 2013

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

PROCEDURES AND RESULTS

- I. Baker Tilly Virchow Krause, LLP (Baker Tilly) assisted management with creating Statements of Income and Expenses, on the accrual basis, to include the following classification of financial items for the Northeast Central Wholesale Sewer System for the year ended November 30, 2012:
 - a. Operating Revenues
 - b. Operating Expenses
 - c. Non-Operating Revenues and Expenses
 - d. Capital Contributions, Replacement and Cash Outflows and Capital Improvements

Refer to Attachment II to this report for further details.

- II. Baker Tilly tested the methodology used by the Lake County Public Works Department (Department) for reporting revenues and expenses directly attributable to the Northeast Central Wholesale Sewer System. Based on this testing, it was determined the methods and assumptions used by the Department for tracking and reporting revenues and expenses were reasonable and consistent in nature. No exceptions were noted during our testing.
- III. Baker Tilly assisted management in developing and implementing a methodology for tracking and reporting revenues and expenses indirectly attributable to the Northeast Central Wholesale Sewer System for inclusion in the Statements of Income and Expenses.

Refer to Attachment II to this report.

- IV. Baker Tilly verified amounts used to complete Procedure I were allocated and derived from the audited information of the Lake County Public Works Department Waterworks and Sewerage Systems Fund as a whole for the year ended November 30, 2012.
- V. Baker Tilly summarized the future annual cost recovery associated with the Northeast Central Wholesale Sewer System's ten-year capital improvements plan provided by the Department.

Refer to Note 4 and Attachment V to this report.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended November 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water and sewer charges	\$ 3,668,370	\$ 3,082,342
OPERATING EXPENSES		
Personnel services		
Salaries and wages	200,053	159,063
Pension - IMRF and social security	36,831	29,758
Total Personnel Services	<u>236,884</u>	<u>188,821</u>
Commodities		
Office supplies and maintenance	2,025	3,092
Housekeeping supplies	1,228	1,205
Gasoline	13,523	9,812
Buildings and ground supplies	871	869
Operational supplies	37,123	38,165
Uniforms	1,667	916
Medical supplies	223	104
Non capitalized equipment and improvements	11,450	11,381
Miscellaneous	188	100
Total Commodities	<u>68,298</u>	<u>65,644</u>
Contractual		
Insurance		
Employees' life, health and dental	49,493	37,584
Unemployment	36,983	28,806
Miscellaneous benefits	5,109	2,211
Gas (utility)	1,626	1,766
Electricity	25,986	44,262
Telephone and telemetry	6,834	6,916
Wholesale sewage treatment	2,638,275	2,415,818
Vehicle maintenance	7,809	6,254
Buildings and equipment maintenance	12,373	10,269
Equipment rental/real estate lease	592	391

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended November 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING EXPENSES (cont.)		
Disposal service	\$ 101	\$ 833
Miscellaneous	74,107	74,031
Total Contractual	<u>2,859,288</u>	<u>2,629,141</u>
Total Operating Expenses	<u>3,164,470</u>	<u>2,883,606</u>
OPERATING INCOME - EXCLUDING DEPRECIATION	<u>503,900</u>	<u>198,736</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest rate subsidy	26,076	-
Interest expense	(74,555)	-
Interest charged to construction	16,961	-
Amortization of bond issuance costs	(1,624)	-
Total Non-Operating Revenues (Expenses)	<u>(33,142)</u>	<u>-</u>
Income Before Contributions and Other Items	470,758	198,736
CAPITAL CONTRIBUTIONS - CONNECTION FEES	272,602	279,580
FORECASTED ANNUAL IMPROVEMENT COSTS	(580,358)	(582,500)
CAPITAL EXPENDITURES	<u>(39,358)</u>	<u>(17,252)</u>
NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE	<u>\$ 123,644</u>	<u>\$ (121,436)</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

Note 1 – Nature of Statement of Income and Expenses

The Statements of Income and Expenses (statements) are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred. The revenues and expenses presented here are allocated to the Northeast Central Wholesale Sewer System from the Department's fiscal year 2012 audited financial statements dated May 14, 2013.

Note 2 – Reconciling Items

The attached statements were not prepared in accordance with accounting principles generally accepted in the United States of America and only represent revenues and expenses associated with the Northeast Central Wholesale Sewer System's operations and do not include all revenue and expense categories as shown in the Department's fiscal year 2012 audited financial statements. Items not presented in the attached statements include:

- > Depreciation expense
- > Non-cash capital contributions
- > Proceeds from sale of capital assets

The above items were not allocated to the Northeast Central Wholesale Sewer System due to the procedures agreed-upon between the Department and Baker Tilly, which required the financial statements presented here only report similar revenues and expenses as used in designing the Department's current rate structure during the most recent Water and Sewer Rate Study.

Note 3 – Items Specific to the Northeast Central Wholesale Sewer System***Interest Expense, Issuance Costs, Interest Charged to Construction and Interest Rate Subsidy***

The Build America Bond Series of 2010A was issued to complete various water and sewer capital projects. The associated interest expense, issuance costs, interest charged to construction and interest rate subsidy was allocated to the Northeast Central Wholesale Sewer System based on the actual projects funded through this debt that were directly related to the Northeast Central Wholesale Sewer System customers.

Please refer to Independent Accountants' Report on Applying Agreed-Upon Procedures.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS (cont.)

Note 3 – Items Specific to the Northeast Central Wholesale Sewer (cont.)

Annual Infrastructure Refurbishment/Replacement Costs

As part of this agreed-upon procedures engagement, the Department determined the costs associated with relining and refurbishing the Northeast Central Wholesale Sewer System's interceptor facilities for inclusion in the statements. This procedure was necessary to reflect the amounts required to be recovered through user fees in future years to ensure the Department will have sufficient funds on hand to refurbish the Northeast Central Wholesale Sewer System's infrastructure over the next 20 years.

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

Refer to Attachments IV and V to this report for further details.

Note 4 – Annual Costs Associated with Ten-Year Capital Improvements Plan

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

The Department has identified four projects in the Northeast Central Region estimated to be completed:

- > Northeast Central Interceptor Relief Sewer Installation - \$2,000,000
- > Northeast Central Pump Station Improvements - \$1,400,000
- > Northeast Central Sewer Force Main - \$1,300,000
- > Northeast Central Infrastructure Replacement and Refurbishment - \$9,257,168

Please refer to Independent Accountants' Report on Applying Agreed-Up On Procedures.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS (cont.)

Note 4 – Annual Costs Associated with Ten-Year Capital Improvements Plan (cont.)

The total estimated cost of the projects is \$13,957,168, of which 100% of the total costs are related to serving the Northeast Central Wholesale Sewer System customers. To further isolate the costs that will be recovered through user fees, it is estimated approximately 83% of the total costs related to serving the Northeast Central Wholesale Sewer System customers will be to replace existing infrastructure. The total portion of the above projects that will be recovered, over the next 20 years, through Northeast Central Wholesale Sewer System customer user fees is \$11,607,168.

The forecasted capital improvements plan presents, to the best of the Department's knowledge and belief, the Department's expected capital projects to occur between the years 2012 through 2021 related to the Northeast Central Wholesale Sewer System. Accordingly, the forecasted information reflects the Department's judgment, based on present circumstances, of the expected set of conditions and its expected course of action. The assumptions disclosed herein are those that the Department believes are significant to Attachments IV and V. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Refer to Attachments IV and V to this report for further details.

Note 5 – Capital Expenditures

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

Refer to Attachment VI to this report for further details.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

INFRASTRUCTURE REFURBISHMENT AND REPLACEMENT SCHEDULE

Description	Units	Price Per Unit	Historical Value	Replacement Value	Relining and Refurbishment Cost Per Unit	Relining and Refurbishment Cost for 75 Year Service Life
48" Subaqueous Sanitary Main	584	\$ 216	\$ 126,144	\$ 443,877	\$ 195	\$ 113,880
48" Tunneled Sanitary Main	544	324	176,256	620,212	195	106,080
48" Sanitary Main	6,926	80	554,080	1,949,703	195	1,350,570
Manholes	24	1,673	40,160	141,315	2,200	52,800
36" Sanitary Main	8,877	30	265,245	933,346	146	1,296,042
36" Tunneled Sanitary Main	83	232	19,129	67,312	146	12,045
24" Sanitary Main	73	34	2,501	8,800	95	6,935
Junction Chamber	2	5,000	10,000	35,188	7,500	15,000
Manholes	32	980	31,370	110,385	2,200	70,400
36" Sanitary Main	7,408	39	288,097	1,013,760	146	1,081,568
24" Tunneled Sanitary Main	92	152	13,962	49,129	95	8,740
24" Force Main	2,510	25	62,022	218,244	95	238,450
15" Sanitary Main	726	10	6,919	24,346	75	54,450
Manholes	23	1,098	25,244	88,829	2,200	50,600
Pump Station	1	996,381	996,381	3,506,077	-	-
33" Sanitary Main	5,038	97	486,671	1,712,503	134	675,092
27" Sanitary Main	3,676	40	145,202	510,939	110	404,360
27" Tunneled Sanitary Main	57	255	14,529	51,126	110	6,270
24" Sanitary Main	2,919	48	139,820	492,001	95	277,305
21" Sanitary Main	2,733	27	73,791	259,656	90	245,970
21" Tunneled Sanitary Main	92	143	13,119	46,164	90	8,280
10" Sanitary Main	774	6	4,412	15,524	60	46,440
36" Steel Casting	90	225	20,250	71,256	-	-
Manholes	50	1,448	72,410	254,797	2,200	110,000
24" Sanitary Main	5,000	24	121,250	844,946	95	475,000
Manholes	19	606	11,513	80,229	2,200	41,800
Subtotal			3,720,477	13,549,664		6,748,077
Contingencies			179,338	653,958		653,958
Engineering			518,093	1,855,133		1,855,133
TOTAL			\$ 4,417,908	\$ 16,058,755		\$ 9,257,168

Note - This table represents a detailed breakdown of the costs represented in Attachment V.
Please refer to Independent Accountants' Report on Applying Agreed-Upon Procedures.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

CAPITAL IMPROVEMENTS PLAN

Project Description	Total Cost	Percent Wholesale	Percent Retail	Percent Replacement	Percent Expansion
Northeast Central Interceptor Relief Sewer Installation	\$ 2,000,000	100%	0%	50%	50%
Northeast Central Pump Station Improvements	1,400,000	100%	0%	50%	50%
Northeast Central Sewer Force Main	1,300,000	100%	0%	50%	50%
NEC Infrastructure Replacement and Refurbishment	<u>9,257,168</u> Note 1	100%	0%	100%	0%
Total Project Costs	<u>\$ 13,957,168</u>				
Total Project Costs Related to Wholesale Customers	<u>\$ 13,957,168</u>				
Total Project Costs to be Recovered through Wholesale Customer Rates	<u>\$ 11,607,168</u>				

Annual Improvement Cost:

Forecasted Annual Capital Improvement Costs:	<u>Note 2 \$ 580,358</u>
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Note 1 - See Attachment IV for a breakdown of these project costs.

Note 2 - Based on a 20 year cost recovery period.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

CAPITAL EXPENDITURES

Project Description	2012	2011
Administration Building Expansion	\$ 77	\$ 10,969
Motor Vehicles	8,125	572
Construction and Maintenance Equipment	29,064	3,483
Laboratory Equipment	2,092	2,228
Total Northeast Central Capital Expenditures	\$ 39,358	\$ 17,252