

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST 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  
NORTHWEST WHOLESALE SEWER SYSTEM**

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For the Years Ended November 30, 2012 and 2011

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**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 Northwest Wholesale Sewer System. Similar procedures were performed for the year ended November 30, 2011 by other auditors whose final report was dated 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 Northwest 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.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
August 5, 2013

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

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**PROCEDURES AND RESULTS**

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- 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 Northwest Wholesale Sewer System for the years ended November 30, 2012:
  - a. Operating Revenues
  - b. Operating Expenses
  - c. Non-Operating Revenues and Expenses
  - d. Capital Contributions

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 Northwest 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 Northwest 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 Northwest 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  
NORTHWEST WHOLESALE SEWER SYSTEM**

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

	2012	2011
<b>OPERATING REVENUES</b>		
Water and sewer charges	\$ 5,908,437	\$ 5,809,040
<b>OPERATING EXPENSES</b>		
Personnel services		
Salaries and wages	387,461	421,411
Pension - IMRF and social security	71,889	78,172
Total Personnel Services	459,350	499,583
Commodities		
Office supplies and maintenance	4,554	6,818
Housekeeping supplies	4,776	7,069
Gasoline	21,203	19,337
Buildings and ground supplies	3,246	8,571
Operational supplies	69,809	50,587
Chemical supplies	-	209
Uniforms	2,864	2,768
Medical supplies	476	536
Non capitalized equipment and improvements	14,044	26,621
Miscellaneous	313	512
Total Commodities	121,285	123,028
Contractual		
Insurance		
Employees' life, health and dental	117,766	116,299
Unemployment	61,510	62,412
Miscellaneous benefits	9,375	6,064
Gas (utility)	13,171	16,779
Electricity	68,843	80,520
Telephone and telemetry	7,953	16,875
Wholesale sewage treatment	4,032,304	3,693,168
Vehicle maintenance	11,832	12,883
Buildings and equipment maintenance	36,248	66,277
Equipment rental/real estate lease	984	846

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

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

	2012	2011
<b>OPERATING EXPENSES (cont.)</b>		
Disposal service	\$ 1,903	\$ 1,911
Miscellaneous	163,374	205,033
Total Contractual	<u>4,525,263</u>	<u>4,279,067</u>
Total Operating Expenses	<u>5,105,898</u>	<u>4,901,678</u>
<b>OPERATING INCOME - EXCLUDING DEPRECIATION</b>	<u>802,539</u>	<u>907,362</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest rate subsidy	849	-
Interest expense	(2,426)	-
Interest charged to construction	552	-
Amortization of bond issuance costs	(53)	-
Total Non-Operating Revenues (Expenses)	<u>(1,078)</u>	<u>-</u>
Income Before Contributions and Other Items	801,461	907,362
<b>CAPITAL CONTRIBUTIONS - CONNECTION FEES</b>	79,789	89,670
<b>FORECASTED ANNUAL IMPROVEMENT COSTS</b>	(785,466)	(685,466)
<b>CAPITAL EXPENDITURES</b>	<u>(139,499)</u>	<u>(40,095)</u>
<b>NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE</b>	<u>\$ (43,715)</u>	<u>\$ 271,471</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS**

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**Note 1 – Nature of Statements 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 Northwest 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 Northwest 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 Northwest 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 Northwest 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 Northwest Wholesale Sewer System based on the actual projects funded through this debt that were directly related to the Northwest Wholesale Sewer System customers.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS (cont.)**

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**Note 3 – Items Specific to the Northwest Wholesale Sewer System (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 Northwest 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 Northwest 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 Northwest 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 Northwest 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 Northwest Wholesale Sewer System customers in subsequent periods.

The Department has identified two projects in the Northwest Region estimated to be completed:

- > East Main Force Main Extension Project - \$2,000,000
- > NW I&I Improvements and Interceptor and Force Main Refurbishment - \$13,709,300

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



**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

For the Years Ended November 30, 2012 and 2011

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS (cont.)**

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

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 Northwest 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 Northwest Wholesale Sewer System's capital asset items for inclusion in the statements. This procedure was necessary to identify additional capital expenditures incurred on an annual basis for which the current user rates are designed to recover.

Refer to Attachment VI to this report for further details.

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESAL SEWER SYSTEM**

INFRASTRUCTURE REFURBISHMENT AND REPLACEMENT SCHEDULE

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

Years to Recover Relining and Refurbishment Costs 20

Total Cost to Reline and Refurbish to Reach 75 Year Life	\$ 13,709,328
Total Cost to Recover Per Year	\$ 685,466

**Note** - This table represents a detailed breakdown of certain costs represented in Attachment V.

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

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
NORTHWEST WHOLESALE SEWER SYSTEM**

CAPITAL IMPROVEMENTS PLAN

Project Description	Total Cost	Percent Wholesale	Percent Retail	Percent Replacement	Percent Expansion
East Main Force Main Extension Project	\$ 2,000,000	100%	0%	100%	0%
NW I&I Improvements & Interceptor & Force Main Refurbishment	<u>13,709,300</u> <b>Note 1</b>	100%	0%	100%	0%
<b>Total Project Costs</b>	<u>\$ 15,709,300</u>				
<b>Total Project Costs Related to Wholesale Customers</b>	<u>\$ 15,709,300</u>				
<b>Total Project Costs to be Recovered through Wholesale Customer Rates</b>	<u>\$ 15,709,300</u>				
<b>Annual Improvement Cost:</b>					
Forecasted Annual Capital Improvement Costs:	<u>\$ 785,465</u>				

**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  
NORTHWEST WHOLESALE SEWER SYSTEM**

**CAPITAL EXPENDITURES**

<b>Project Description</b>	<b>2012</b>	<b>2011</b>
Administration Building Expansion	\$ 128	\$ 22,241
PW - NW Interceptor Improvement	-	5,115
Construction and Maintenance Equipment	48,339	7,061
Laboratory Equipment	3,480	4,517
Motor Vehicles	35,985	1,161
RLSD Excess Flow Facility	51,567	-
<b>Total Northwest Capital Expenditures</b>	<b>\$ 139,499</b>	<b>\$ 40,095</b>