

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
SOUTHEAST 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  
SOUTHEAST 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

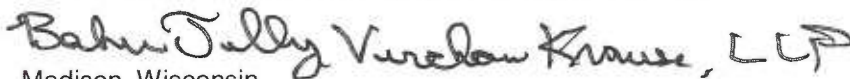
We have performed the procedures contained in Attachment I to this report, which were agreed to by the management of Lake County Public Works Department, solely to assist you in evaluating the validity of the accompanying Statements of Income and Expenses for the year ended November 30, 2012 for the Southeast 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 Southeast 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  
SOUTHEAST 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 Southeast 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, 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 Southeast 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 Southeast 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 years ended November 30, 2012.
- V. Baker Tilly summarized the future annual cost recovery associated with the Southeast Wholesale Sewer System's ten-year capital improvements plan provided by the Department.

Refer to Note 4 and Attachment V to this report.

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

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

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

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Water and sewer charges	\$ 7,032,473	\$ 7,448,386
Miscellaneous	1,271	300
Total Operating Revenues	<u>7,033,744</u>	<u>7,448,686</u>
<b>OPERATING EXPENSES</b>		
Personnel services		
Salaries and wages	972,801	1,082,638
Pension - IMRF and social security	180,716	200,035
Total Personnel Services	<u>1,153,517</u>	<u>1,282,673</u>
Commodities		
Office supplies and maintenance	22,000	11,645
Housekeeping supplies	4,996	5,044
Gasoline	37,191	39,889
Buildings and ground supplies	9,928	8,754
Operational supplies	250,816	165,950
Chemical supplies	130,422	120,622
Uniforms	5,230	6,226
Medical supplies	1,304	1,250
Non capitalized equipment and improvements	102,995	59,468
Miscellaneous	538	492
Total Commodities	<u>565,420</u>	<u>419,340</u>
Contractual		
Insurance		
Employees' life, health and dental	264,747	307,708
Unemployment	96,446	124,825
Miscellaneous benefits	15,994	11,334
Gas (utility)	60,543	83,856
Electricity	510,956	652,400
Telephone and telemetry	10,017	14,684
Vehicle maintenance	20,683	29,403
Buildings and equipment maintenance	79,709	117,069
Equipment rental/real estate lease	4,305	58,657

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

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

	<u>2012</u>	<u>2011</u>
<b>OPERATING EXPENSES (cont.)</b>		
Disposal service	\$ 195,106	\$ 179,809
Miscellaneous	467,931	392,830
Total Contractual	<u>1,726,437</u>	<u>1,972,575</u>
Total Operating Expenses	<u>3,445,374</u>	<u>3,674,588</u>
<b>OPERATING INCOME - EXCLUDING DEPRECIATION</b>	<u>3,588,370</u>	<u>3,774,098</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest rate subsidy	41,003	-
Interest expense	(117,231)	(94,532)
Interest charged to construction	26,670	-
Amortization of bond issuance costs	(2,553)	(27,563)
Total Non-Operating Revenues (Expenses)	<u>(52,111)</u>	<u>(122,095)</u>
Income Before Contributions and Other Items	3,536,259	3,652,003
<b>CAPITAL CONTRIBUTIONS - CONNECTION FEES</b>	722,181	206,756
<b>FORECASTED ANNUAL IMPROVEMENT COSTS</b>	(1,932,286)	(1,892,896)
<b>CAPITAL EXPENDITURES</b>	<u>(334,745)</u>	<u>(265,459)</u>
<b>NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE</b>	<u>\$ 1,991,409</u>	<u>\$ 1,700,404</u>

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
SOUTHEAST 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 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 Southeast 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 Southeast 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 Southeast 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 Southeast 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 Southeast Wholesale Sewer System based on the actual projects funded through this debt that were directly related to the Southeast Wholesale Sewer System customers.

***Annual Infrastructure Refurbishment/Replacement Costs***

As part of this agreed-upon procedures engagement, the Department determined the costs associated with relining and refurbishing the Southeast Wholesale Sewer System's interceptor facilities for inclusion in the statement. 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 Southeast Wholesale Sewer System's infrastructure over the next 20 years.

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

**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
SOUTHEAST 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 Southeast Wholesale Sewer System (cont.)**

***Annual Infrastructure Refurbishment/Replacement Costs (cont.)***

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 Southeast Wholesale Sewer System.

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

The Department has included an analysis forecasting the amounts the Southeast 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 Southeast Wholesale Sewer System customers in subsequent periods.

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

- > Des Plaines River WWRF Refurbishment - \$35,200,000

	Amount
Phase I	\$ 1,600,000
Phase II	800,000
Phase IIA	6,300,000
Phase IIB	14,000,000
Phase III	9,000,000
Blower and Sludge Pres	1,400,000
Buildings Refurbishment	2,100,000
Total	\$ 35,200,000

- > Southeast Interceptor Improvements - \$11,189,710

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



**LAKE COUNTY PUBLIC WORKS DEPARTMENT  
SOUTHEAST 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 total estimated cost of the projects is \$46,389,710, of which approximately 83% of the total costs are related to serving the Southeast Wholesale Sewer System customers. To further isolate the costs that will be recovered through user fees, it is estimated 100% of the total costs related to serving the Southeast 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 Southeast Wholesale Sewer System customer user fees is \$38,645,710.

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 Southeast 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 Southeast 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  
SOUTHEAST 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
15" Sanitary Main	18,128	\$	435,072	\$ 2,284,128	\$	\$ 1,178,320
Manholes	53		16,350	85,754	2,200	116,600
Lift Station	2	22,700	45,400	238,444	120,000	240,000
8" Force Main	581	12	6,972	36,603	70	40,670
8" Force Main	946	12	11,352	59,598	70	66,220
48" Sanitary Main	7	43	301	1,442	195	1,365
36" Sanitary Main	6,106	37	225,922	1,082,334	145	885,370
30" Sanitary Main	5,825	34	198,050	948,807	120	699,000
24" Sanitary Main	8,647	30	259,410	1,242,767	95	821,465
18" Sanitary Main	1,429	28	39,583	189,632	75	107,175
15" Sanitary Main	18	25	450	2,156	65	1,170
Manholes	53	907	48,069	230,286	2,200	116,600
15" Sanitary Main	800	32	25,600	96,000	65	52,000
Manholes	2	650	1,300	4,848	2,200	4,400
21" Sanitary Main	1,826	72	131,472	259,900	85	155,210
18" Sanitary Main	13,739	65	893,035	1,758,592	75	1,030,425
15" Sanitary Main	7,861	61	479,521	951,181	65	510,965
14" Force Main	11,348	55	624,140	1,236,932	110	1,248,280
12" Force Main	4,948	51	252,348	499,748	105	519,540
10" Force Main	7,912	42	332,304	656,696	100	791,200
Manholes	77	2,200	169,400	334,873	2,200	169,400
Lift Station	2	170,000	340,000	670,588	340,000	680,000
12" Force Main	7,140	70	499,800	714,000	105	749,700
<b>Subtotal</b>			<b>5,035,851</b>	<b>13,585,309</b>		<b>10,185,075</b>
Contingencies			251,793	679,265		418,598
Engineering			402,868	1,086,825		586,037
<b>TOTAL</b>			<b>\$ 5,690,512</b>	<b>\$ 15,351,399</b>		<b>\$ 11,189,710</b>

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

Years to Recover Relining and Refurbishment Costs 20

^ Total Cost to Reline and Refurbish to Reach 75 Year Life \$ 11,189,710  
 Total Cost to Recover Per Year \$ 559,486

^ - Costs are reported using 2008 dollars and do not include the effect of inflation during the 20 year time period.

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

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

CAPITAL IMPROVEMENTS PLAN

Project Description	Total Cost	Percent Wholesale	Percent Retail	Percent Replacement	Percent Expansion
Des Plaines River WWRF Blower and Sludge Pres	\$ 1,400,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase I	1,600,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase II	800,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase IIA	6,300,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase IIB	14,000,000	78%	22%	100%	0%
Des Plaines River WWRF Refurbishment Phase III	9,000,000	78%	22%	100%	0%
Des Plaines River WWRF Buildings Refurbishment	2,100,000	78%	22%	100%	0%
Southeast Interceptor Refurbishment	<u>11,189,710</u> <b>Note 1</b>	100%	0%	100%	0%
Total Project Costs	<u>\$ 46,389,710</u>				
Total Project Costs Related to Wholesale Customers	<u>\$ 38,645,710</u>				
Total Project Costs to be Recovered through Wholesale Customer Rates	<u>\$ 38,645,710</u>				
<b>Annual Improvement Cost:</b>					
Forecasted Annual Capital Improvement Costs:			<u><b>Note 2</b> \$ 1,932,286</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  
SOUTHEAST WHOLESALE SEWER SYSTEM**

CAPITAL EXPENDITURES

<b>Project Description</b>	<b>2012</b>		<b>2011</b>	
Administration Building Expansion	\$	201	\$	44,529
Sanitary Sewer Rehab 2011		147,355		118,472
Aptakasic Creek SB Erosion		7,189		4,698
Portwine Road LS Force Main		65,758		50,081
Deerfield Road Force Main Relocation		-		22,173
Motor Vehicles		32,993		2,324
Construction and Maintenance Equipment		75,793		14,137
Laboratory Equipment		5,456		9,045
<b>Total Southeast Capital Expenditures</b>	<b>\$</b>	<b>334,745</b>	<b>\$</b>	<b>265,459</b>