



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

January 18, 2013

David Lothspeich
Village Manager
Village of Long Grove
3110 Rfd
Long Grove, IL, 60047

RE: Annual Required Rate Review

Dear David:

Baker Tilly reviewed your operating results to fulfill your Water Utility Ordinance requirement. Please note that this review service was not performed in accordance with AICPA Financial Forecast professional standards. Section 8.15.5 of your Ordinance states the adequacy of the water rates has to be reviewed at least annually by your auditors. This developed revenue requirement is attached as Attachment A.

We have developed the forecasted revenue requirement based on the following assumptions:

- No customer growth was assumed;
- Only the levied special assessments were included as cash flow in;
- Current depreciation expense of \$115,000 was used as an estimate for replacement or capital budget;
- Repayment of the advance of \$548,00, including any interest expense on advances was not included in the revenue requirement;
- FY 13 expenses are estimated based on FY12 with a inflationary increase of approximately \$2,100.

Based on these assumptions the net cash flow is a negative \$24,200, which would require either a 38% rate increase, increase in tax levy or a combination of both.

This estimate can change if any of the assumptions above are modified. For instance if the replacement/capital budget were eliminated it would increase your cash flow to show a positive cash flow of \$91,000. We would not recommend eliminating this line item completely as it is important to have some level of replacement built into your rates to help build a reserve for future capital projects and replacements. This reserve can be set at a comfortable level for the utility, which can be lower than your current depreciation expense. The advance was not built into the revenue requirement and you should consider this assumption when making a decision to increase rates or not. This decision should depend on when the utility needs to pay back the advance and whether interest is expected to be charged.

As you review this please let us know if you have any questions or would like to change any of the assumptions mentioned above. Please feel free to contact Sarah Schleede at 608 240 2310 or sarah.schleede@bakertilly.com or me with any questions.

Please let us know if we can be of further assistance to you on this or any other matter. We appreciate this opportunity to assist the Village and we look forward to working with you in the future.

David Lothspeich
Village Manager
Village of Long Grove

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Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

John Andres, CPA, Partner

Attachment A

Attachment A
Revenue Requirement - Cash Basis

	Actual FY12	Forecasted FY13
OPERATING REVENUES		
Metered Sales		
User Revenues	\$ 54,798	\$ 64,000
Total Metered Sales	54,798	64,000
Other Revenues		
Meter fees	1,620	1,000
Application fees	1,225	500
Special assessments	187,727	177,700
Interest income	1,158	1,100
Total Other Revenues	191,730	180,300
TOTAL OPERATING REVENUES	246,528	244,300
OPERATING EXPENSES		
Operation and Maintenance Expense		
Operations	23,791	25,000
Administrative and General	20,109	21,000
Total Operation and Maintenance	43,900	46,000
Replacement/Capital Budget*	114,305	115,000
Debt Service**	65,445	107,500
Total Other Expense	179,750	222,500
TOTAL OPERATING EXPENSES	223,650	268,500
NET CASH FLOW IN (OUT)	\$ 22,878	\$ (24,200)
RATE OR TAX LEVY INCREASE (DECREASE) REQUIRED		38%

*This is based on depreciation expense

**Debt service includes taxable bonds only