

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

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

For the Years Ended November 30, 2016 and 2015

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

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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 ("Department"), solely to assist you in preparing and evaluating the validity of the accompanying Statements of Income and Expenses for the years ended November 30, 2016 and 2015, for the Southeast Wholesale Sewer System. Lake County Public Works Department's management is responsible for the Statements of Income and Expenses. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying Statements of Income and Expenses. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The attached Statements of Income and Expenses was 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. It does not include all revenue and expense categories as shown in the Department's fiscal year 2016 and 2015 audited financial statements.

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.

The Significant Annual Forecasted Improvement Related Costs included in the Statements of Income and Expenses is in the form of a forecast and was 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 examined the forecasted information and, accordingly, do not express an opinion or any other form of assurance on this item. 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
October 25, 2017

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

For the Years Ended November 30, 2016 and 2015

PROCEDURES AND RESULTS

- I. Baker Tilly Virchow Krause, LLP (Baker Tilly) summarized the Statements of Income and Expenses, on the accrual basis, based on information provided by management to include the following classification of financial items for the Southeast Wholesale Sewer System for the years ended November 30, 2016 and 2015:
- a. Operating Revenues
 - b. Operating Expenses
 - c. Nonoperating Revenues and Expenses
 - d. Capital Contributions and Significant Annual Forecasted Improvement Related Costs

Refer to Attachment II to this report.

- II. Baker Tilly inquired, inspected, and mathematically checked the methodology used by the Lake County Public Works Department (Department) for reporting revenues and expenses directly attributable to the Southeast Wholesale Sewer System for consistency with prior years.
- III. Baker Tilly recalculated the allocations of revenues and expenses indirectly attributable to the Southeast Wholesale Sewer System for inclusion in the Statement of Income and Expenses based on the methodology used in prior years.

Refer to Attachment II to this report.

- IV. Baker Tilly agreed amounts used to complete Procedure I to the audited information of the Lake County Public Works Department Waterworks and Sewerage Systems Fund as a whole for the years ended November 30, 2016 and 2015, by agreeing the aggregate of all individual regional revenues and expenses to the audited revenues and expenses.
- V. Baker Tilly summarized the future annual cost recovery associated with the Des Plaines Water Reclamation Facility project provided by the Department.

Refer to Note 3 of Attachment III to this report.

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

STATEMENTS OF INCOME AND EXPENSES
For the Years Ended November 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Sewer charges	\$ 5,940,414	\$ 5,996,634
Miscellaneous	1,134	1,080
Total Operating Revenues	<u>5,941,548</u>	<u>5,997,714</u>
OPERATING EXPENSES		
Personnel services		
Salaries and wages	1,184,681	1,005,576
Pension - IMRF and social security	308,876	181,812
Total Personnel Services	<u>1,493,557</u>	<u>1,187,388</u>
Commodities		
Office supplies and maintenance	6,471	7,781
Housekeeping supplies	5,101	3,227
Gasoline	18,780	19,695
Buildings and ground supplies	5,624	5,765
Operational supplies	269,829	189,961
Chemical supplies	93,568	91,962
Uniforms	8,173	6,280
Medical supplies	1,749	1,477
Noncapitalized equipment and improvements	54,855	20,277
Miscellaneous	310	27
Total Commodities	<u>464,460</u>	<u>346,452</u>
Contractual		
Insurance		
Employees' life, health and dental	370,605	283,300
Unemployment	108,869	82,691
Miscellaneous benefits	18,487	14,633
Gas (utility)	51,835	55,782
Electricity	643,335	591,343
Telephone and telemetry	12,981	9,935
Vehicle maintenance	18,290	15,733
Buildings and equipment maintenance	116,475	95,017
Equipment rental/real estate lease	5,427	5,721

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

STATEMENTS OF INCOME AND EXPENSES
For the Years Ended November 30, 2016 and 2015

	2016	2015
OPERATING EXPENSES (cont.)		
Disposal service	\$ 204,187	\$ 185,409
Miscellaneous	501,470	470,125
Total Contractual	<u>2,051,961</u>	<u>1,809,689</u>
Depreciation	<u>1,952,745</u>	<u>1,700,566</u>
Total Operating Expenses	<u>5,962,723</u>	<u>5,044,095</u>
OPERATING (LOSS) INCOME	<u>(21,175)</u>	<u>953,619</u>
NONOPERATING REVENUES (EXPENSES)		
Interest rate subsidy	48,212	48,335
Interest expense	<u>(138,464)</u>	<u>(139,025)</u>
Total Nonoperating Revenues (Expenses)	<u>(90,252)</u>	<u>(90,690)</u>
Income (Loss) Before Contributions and Other Items	(111,427)	862,929
CAPITAL CONTRIBUTIONS - CONNECTION FEES	447,217	492,643
SIGNIFICANT ANNUAL FORECASTED IMPROVEMENT RELATED COSTS	<u>(1,960,183)</u>	<u>(1,960,457)</u>
NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE	<u>\$ (1,624,393)</u>	<u>\$ (604,885)</u>

LAKE COUNTY PUBLIC WORKS DEPARTMENT SOUTHEAST WHOLESALE SEWER SYSTEM

For the Years Ended November 30, 2016 and 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Southeast Wholesale Sewer System from the Department's fiscal year 2016 and 2015 audited financial statements dated May 19, 2017 and May 13, 2016, respectively.

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 years 2016 and 2015, audited financial statements. Items not presented in the attached statement include:

- > Noncash capital contributions
- > Proceeds from sale of capital assets
- > Investment income

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 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 were 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. Principal payments are not included in the statements as the related capital improvement charges are recovered through depreciation.

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

For the Years Ended November 30, 2016 and 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Note 3 – Items Specific to the Southeast Wholesale Sewer System (cont.)

Significant Annual Forecasted Improvement Related Costs (cont.)

The Department determined the costs associated with significant projects occurring in the upcoming year for inclusion in the statements. This procedure was necessary to reflect the amounts required to be recovered through user charges in the near future to ensure the Department will have sufficient funds on hand to cover the costs resulting from this project. The following represents the significant annual costs related to the Des Plaines Water Reclamation Facility project:

2016 Updated Estimate

	<u>Annual Total Cost</u>	<u>Wholesale Allocation</u>
1. Facilities upgrades - \$39 million with a 30-year life	\$ 1,300,000	\$ 943,295
2. Interest on IEPA loan to cover costs of the project	700,000	507,928
3. Additional operating costs to run facility	<u>701,800</u>	<u>509,234</u>
Total forecasted costs	\$ 2,701,800	\$ 1,960,457
Less: Depreciation on capitalized costs in 2016	<u>(378)</u>	<u>(274)</u>
Total	\$ 2,701,422	\$ 1,960,183

2015 Estimate

	<u>Annual Total Cost</u>	<u>Wholesale Allocation</u>
4. Facilities upgrades - \$39 million with a 30year life	\$ 1,300,000	\$ 943,295
5. Interest on IEPA loan to cover costs of the project	700,000	507,928
6. Additional operating costs to run facility	<u>701,800</u>	<u>509,234</u>
Total	\$ 2,701,800	\$ 1,960,457