

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

STATEMENTS 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  
NORTHWEST WHOLESALE SEWER SYSTEM**

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For the Years Ended November 30, 2016 and 2015

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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 Northwest 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 Northwest 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.

The Significant Annual Forecasted Improvement Related Costs referenced 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.

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.

*Baker Tilly Voichau Krause, LLP*

Madison, Wisconsin  
October 25, 2017

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

For the Years Ended November 30, 2016 and 2015

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**PROCEDURES AND RESULTS**

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- 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 Northwest Wholesale Sewer System for the years ended November 30, 2016 and 2015:
- a. Operating Revenues
  - b. Operating Expenses
  - c. Non-Operating Revenues and Expenses
  - d. Capital Contributions and Transfer to Debt Service Reserve

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 Northwest Wholesale Sewer System for consistency with prior years.
- III. Baker Tilly recalculated the allocations of revenues and expenses indirectly attributable to the Northwest 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.

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

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

	2016	2015
<b>OPERATING REVENUES</b>		
Sewer charges	\$ 5,811,959	\$ 5,843,785
NW I&I excess flow surcharge	512,599	536,472
Total Operating Revenues	<u>6,324,558</u>	<u>6,380,257</u>
<b>OPERATING EXPENSES</b>		
Personnel services		
Salaries and wages	464,644	384,905
Pension - IMRF and social security	94,844	69,738
Total Personnel Services	<u>559,488</u>	<u>454,643</u>
Commodities		
Office supplies and maintenance	2,988	2,702
Housekeeping supplies	3,158	2,889
Gasoline	10,424	11,848
Buildings and ground supplies	14,691	8,388
Operational supplies	61,146	29,656
Chemical supplies	2,172	-
Uniforms	4,351	4,628
Medical supplies	324	298
Noncapitalized equipment and improvements	36,936	11,719
Miscellaneous	2,058	21
Total Commodities	<u>138,248</u>	<u>72,149</u>
Contractual		
Insurance		
Employees' life, health and dental	125,841	124,833
Unemployment	61,411	63,325
Miscellaneous benefits	8,822	8,902
Gas (utility)	11,894	16,647
Electricity	96,873	84,230
Telephone and telemetry	8,932	9,936
Wholesale sewage treatment	4,047,053	4,033,713
Vehicle maintenance	10,647	10,540
Buildings and equipment maintenance	70,390	60,129
Equipment rental/real estate lease	4,842	1,617

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

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

	2016	2015
<b>OPERATING EXPENSES (cont.)</b>		
Disposal service	\$ 2,536	\$ 2,309
Miscellaneous	301,377	294,820
Total Contractual	<u>4,750,618</u>	<u>4,711,001</u>
Depreciation	<u>348,736</u>	<u>330,562</u>
Total Operating Expenses	<u>5,797,090</u>	<u>5,568,355</u>
<b>OPERATING INCOME</b>	<u>527,468</u>	<u>811,902</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest rate subsidy	841	844
Interest expense	<u>(2,417)</u>	<u>(2,426)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,576)</u>	<u>(1,582)</u>
Income Before Contributions and Other Items	525,892	810,320
<b>TRANSFER TO DEBT SERVICE RESERVE</b>	(512,599)	(536,472)
<b>CAPITAL CONTRIBUTIONS - CONNECTION FEES</b>	<u>40,720</u>	<u>104,749</u>
<b>NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE*</b>	<u>\$ 54,013</u>	<u>\$ 378,597</u>

\* Refer to Note 4 for projected impact of significant capital projects in the near future on the Depreciation, Extension and Improvement Reserve.

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

For the Years Ended November 30, 2016 and 2015

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 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 Northwest Wholesale Sewer System's operations and do not include all revenue and expense categories as shown in the Department's fiscal year 2016 and 2015 audited financial statements. Items not presented in the attached statements include:

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

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 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 and interest rate subsidy were 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. Principal payments and interest charged to construction are not included in the statements as the related capital improvement charges are recovered through depreciation.

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, 2016 and 2015

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

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

***I&I Excess Flow Surcharge Revenue***

The Department implemented an excess flow surcharge c \$1.50 per month per Residential Customer Equivalent in 2014 to cover the costs of the I&I Lagoon Improvement project. The revenues from the surcharges are included in the operating revenues on the Statements of Income and Expenses on Page 3. Due to the fact that these revenues are required to be spent on the I&I Lagoon Improvement project and are not available to cover operating expenses, the revenues were backed out accordingly and shown as a transfer to the debt service reserve on the Statements of Income and Expenses on Page 4.

**Note 4 – Other Items**

***Significant Future Annual Forecasted Improvement Related Costs***

While not included in the Statements of Income and Expenses, the Department determined the costs associated with significant projects occurring in the near future (2017-2020) to disclose the effect they will have on the net increase (decrease) to the Depreciation, Extension and Improvement Fund. This illustrates 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 aforementioned projects:

2016 Estimate

	<u>Annual Total Cost</u>	<u>Wholesale Allocation</u>
1. East Main Project - \$3,884,000 cost with a 20-year life	\$ 194,200	\$ 162,900

2015 Estimate

	<u>Annual Total Cost</u>	<u>Wholesale Allocation</u>
1. Excess Flow Facility - \$7,570,000 cost with a 30-year life	\$ 252,300	\$ 211,600
2. East Main Project - \$3,884,000 cost with a 30-year life	129,500	108,600
3. Midland Project - \$1,713,000 cost with a 30-year life	57,100	47,900
4. Interceptor Relining - \$2,980,000 cost with a 30-year life	99,300	83,300
Total	\$ 538,200	\$ 451,400

	<u>2016</u>	<u>2015</u>
Actual Net Increase/(Decrease) to the Depreciation, Extension And Improvement (DEI) Reserve per Page 4	\$ 54,013	\$ 378,597
Estimated significant costs allocated to Wholesale	<u>(162,900)</u>	<u>(451,400)</u>
Projected Increase/(Decrease) to the DEI Reserve	\$ (108,887)	\$ (72,803)

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