

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

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

For the Year Ended November 30, 2014

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

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For the Year Ended November 30, 2014

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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 Statement of Income and Expenses for the year ended November 30, 2014 for the Northeast Central Wholesale Sewer System. Lake County Public Works Department's management is responsible for the Statement 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 Statement 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 Northeast Central Wholesale Sewer System's operations. They do not include all revenue and expense categories as shown in the Department's fiscal year 2014 audited financial 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 Statement 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.

Baker Tilly Virchow Krause LLP

Madison, Wisconsin
May 27, 2015

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Year Ended November 30, 2014

PROCEDURES AND RESULTS

- I. Baker Tilly Virchow Krause, LLP (Baker Tilly) assisted management with creating Statement of Income and Expenses, on the accrual basis, to include the following classification of financial items for the Northeast Central Wholesale Sewer System for the year ended November 30, 2014:
- 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 by walk through and analytics the methodology used by the Lake County Public Works Department (Department) for reporting revenues and expenses directly attributable to the Northeast Central 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. The operating expenses include the annual depreciation on capital assets based on the 2014 financial statements. Historically, the department used the average annual portion of projects planned for preservation, modernization and regulatory compliance based on their 10 year capital plan. Projects or portions of projects related to capacity expansion were expected to be recovered from connection fees and were therefore excluded from the rate study revenue requirement. The department determined that using audited historical depreciation for capital recovery results in a more accurate method for the revenue requirement as it is based on actual costs already incurred rather than forecasted costs. Due to this change, the department opted not to show comparative Statements of Income and Expenses in this report. 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 Northeast Central Wholesale Sewer System for inclusion in the Statement 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, 2014.

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

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

STATEMENT OF INCOME AND EXPENSES
For the Year Ended November 30, 2014

| | 2014 |
|--|--------------|
| OPERATING REVENUES | |
| Sewer charges | \$ 3,176,331 |
| OPERATING EXPENSES | |
| Personnel services | |
| Salaries and wages | 189,275 |
| Pension - IMRF and social security | 43,758 |
| Total Personnel Services | 233,033 |
| Commodities | |
| Office supplies and maintenance | 1,619 |
| Housekeeping supplies | 360 |
| Gasoline | 11,760 |
| Buildings and ground supplies | 432 |
| Operational supplies | 17,140 |
| Uniforms | 1,400 |
| Medical supplies | 151 |
| Non capitalized equipment and improvements | 9,038 |
| Miscellaneous | 43 |
| Total Commodities | 41,943 |
| Contractual | |
| Insurance | |
| Employees' life, health and dental | 56,136 |
| Unemployment | 32,446 |
| Miscellaneous benefits | 4,286 |
| Gas (utility) | 2,925 |
| Electricity | 28,514 |
| Telephone and telemetry | 5,093 |
| Wholesale sewage treatment | 2,488,752 |
| Vehicle maintenance | 6,535 |
| Buildings and equipment maintenance | 7,557 |
| Equipment rental/real estate lease | 733 |

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

STATEMENT OF INCOME AND EXPENSES
For the Year Ended November 30, 2014

| | 2014 |
|---|---------------------|
| OPERATING EXPENSES (cont.) | |
| Disposal service | \$ 98 |
| Miscellaneous | 111,978 |
| Total Contractual | <u>2,745,053</u> |
| Depreciation | <u>325,314</u> |
| Total Operating Expenses | <u>3,345,343</u> |
| OPERATING INCOME | <u>(169,012)</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Interest rate subsidy | 14,460 |
| Interest expense | (41,638) |
| Bond issuance costs | (9,975) |
| Total Non-Operating Revenues (Expenses) | <u>(37,153)</u> |
| Income Before Contributions and Other Items | (206,165) |
| CAPITAL CONTRIBUTIONS - CONNECTION FEES | <u>1,827</u> |
| NET INCREASE (DECREASE) TO DEPRECIATION, EXTENSION AND IMPROVEMENT RESERVE | <u>\$ (204,338)</u> |

**LAKE COUNTY PUBLIC WORKS DEPARTMENT
NORTHEAST CENTRAL WHOLESALE SEWER SYSTEM**

For the Year Ended November 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Note 1 – Nature of Statement of Income and Expenses

The Statement of Income and Expenses (statement) is 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 Northeast Central Wholesale Sewer System from the Department's fiscal year 2014 audited financial statements dated April 10, 2015.

Note 2 – Reconciling Items

The attached statement was not prepared in accordance with accounting principles generally accepted in the United States of America and only represents revenues and expenses associated with the Northeast Central Wholesale Sewer System's operations and do not include all revenue and expense categories as shown in the Department's fiscal year 2014 audited financial statements. Items not presented in the attached statements include:

- > Non-cash capital contributions
- > Proceeds from sale of capital assets
- > Investment income

The above items were not allocated to the Northeast Central Wholesale Sewer System due to the procedures agreed-upon between the Department and Baker Tilly, which required the financial statement 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 Northeast Central 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 Northeast Central Wholesale Sewer System based on the actual projects funded through this debt that were directly related to the Northeast Central Wholesale Sewer System customers. Principal payments are not included in the statements as the related capital improvement charges are recovered through depreciation.