

**WATER AND SEWERAGE SYSTEM OF
DUPAGE COUNTY, ILLINOIS
An Enterprise Fund of DuPage County, Illinois**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended November 30, 2016
(With Comparative Totals for November 30, 2015)

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

An Enterprise Fund of DuPage County, Illinois

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chairman and Members of the County Board
Water and Sewerage System of DuPage County, Illinois
DuPage County, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Water and Sewerage System of DuPage County, Illinois, an enterprise fund of DuPage County, Illinois, as of and for the year ended November 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water and Sewerage System of DuPage County, Illinois' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water and Sewerage System of DuPage County, Illinois' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewerage System of DuPage County, Illinois as of November 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Chairman and Members of the County Board
Water and Sewerage System of DuPage County, Illinois

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewerage System of DuPage County, Illinois and do not purport to, and do not present fairly the financial position of DuPage County, Illinois, as of November 30, 2016 and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The financial information listed as supplementary information in the table of contents for the year ended November 30, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial information listed as supplementary information in the table of contents for the year ended November 30, 2016 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion or provide any assurance on it.

To the Honorable Chairman and Members of the County Board
Water and Sewerage System of DuPage County, Illinois

Prior-Year Comparative Information

We have previously audited the Water and Sewerage System of DuPage County, Illinois' 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated June 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended November 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
May 1, 2017

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016**

The Water and Sewerage System of DuPage County, Illinois (the System) began operations in 1962. The System consists of sewage collection and treatment facilities, water pumping connection facilities to the DuPage Water Commission, and water distribution facilities in certain areas of DuPage County. The System's principal activity is sewage collection and treatment with some pumping and distribution of water purchased primarily from the DuPage Water Commission. The System consists of a single proprietary type fund using full accrual accounting to report operations.

GENERAL FINANCIAL HIGHLIGHTS

The following is a discussion and analysis of The Water and Sewerage System of DuPage County, Illinois' financial statements for the fiscal year ending November 30, 2016.

- For fiscal year 2016, user charges and other revenues of the System were \$25,033,439 and expenses were \$25,305,911 resulting in total expenses exceeding total revenues by \$272,472. It should be noted that \$3.46 million of the reported expense is related to depreciation and amortization.
- Cash disbursements exceeded cash receipts by \$1,092,718 in the Operation and Maintenance Account.

In late 2014, an independent consultant was commissioned to perform a wastewater and water rate study analysis. The purpose of the study was to determine the required rate structure for the System. The study was approved by the Public Works Committee in October 2015. As a result of the study, water rates will remain steady through 2017 and will increase beginning with the March 2018 customer bills. The sewer, sewer maintenance, and base billing rates remained steady through 2016 and will increase beginning with the March 2017 customer bills. These rates are scheduled to remain in effect through 2019.

The System completed the following construction projects in 2016: rehabilitation of clarifier 4 at Knollwood, parking lot improvements at Knollwood, rehabilitation of roto presses at Knollwood, and relined approximately 5,160 linear feet of sewer pipe in Region 9 East.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements which are comprised of the Financial Statements and Notes to the Financial Statements. This report also contains required supplementary information and other supplementary information in addition to the basic Financial Statements themselves.

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

Financial Statements

The Financial Statements are designed to provide readers with a broad overview of the System's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the System's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the System's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing the changes in net position occurring during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., unbilled services fees and amounts due to vendors).

Because the System's primary function is to provide water delivery and sewage collection and treatment to its customers and to recover all costs through user fees and charges, the financial statements only include business-type activities.

The accounts of the System are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because the System provides water delivery and sewage treatment and recovers these costs through user fees and charges, the System's funds are accounted for as an enterprise fund type of the proprietary fund group.

The Financial Statements can be found on pages 13 to 17.

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

Notes to Financial Statements

The Notes provide additional information that is essential to a full understanding of the financial data provided in the Financial Statements. The Notes to the Financial Statements can be found on pages 18 to 35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and other information. This information can be found on pages 36 to 45.

Statement of Net Position

The following is a summary of the System's Statement of Net Position as of November 30, 2016 and 2015.

Statement of Net Position Summary

	November 30,	
	2016	2015
Current Assets	\$15,059,226	\$14,840,021
Capital Assets	90,351,659	91,799,309
Restricted and Other Assets	8,139,105	8,372,677
Total Assets	113,549,990	115,012,007
Deferred Outflows of Resources Related to Pensions	\$2,381,737	\$1,671,404
Current Liabilities	6,190,631	6,252,608
Long-term Liabilities	19,016,428	19,433,363
Total Liabilities	25,207,059	25,685,971
Net Investment in Capital Assets	75,094,490	75,103,186
Restricted for Debt Service	7,940,808	8,154,946
Unrestricted Net Position	7,689,370	7,739,008
Total Net Positions	\$90,724,668	\$90,997,140

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

Statement of Revenue and Expenses and Changes in Net Position Summary

The following is a summary of the System's Statement of Revenue and Expenses and Changes in Net Position for the fiscal years ending on November 30, 2016 and November 30, 2015:

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET
POSITION SUMMARY**

	November 30,	
	2016	2015
Revenues:		
Users' Charges	\$ 13,699,478	\$ 13,747,334
Miscellaneous Income	2,036,735	2,031,094
Administrative Fees	1,200,628	1,193,538
Connection Fees	968,966	322,535
Capital Contributions	18,987	1,252,386
Total Revenue	<u>17,924,794</u>	<u>18,546,887</u>
Pass Through Revenue		
Darien Water Charges	6,487,748	5,325,419
Glen Ellyn Sewer Charges	579,606	572,286
Total Pass Through Revenue	<u>7,067,354</u>	<u>5,897,705</u>
Expenses:		
Salaries & Employee Benefits	8,197,987	8,063,453
Commodities	1,536,656	1,563,872
Contractual	4,544,917	5,082,838
Depreciation and Amortization	3,455,710	3,243,373
Interest and Other	461,996	545,224
Total Expenses	<u>18,197,266</u>	<u>18,498,760</u>
Pass Through Expenses		
Darien Water Payments	6,487,748	5,325,419
Glen Ellyn Sewer Payments	579,606	572,286
Total Pass Through Expenses	<u>7,067,354</u>	<u>5,897,705</u>
Change in Net Position	\$ <u>-272,472</u>	\$ <u>48,127</u>

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

The following is a discussion of the variances between 2016 and 2015.

Revenues

Revenues from user charges for sewerage service and sewer maintenance were relatively flat as was volume billed. Sewer and sewer maintenance rates remained unchanged.

Revenues from user charges for County water remained flat as well. County water rates remained unchanged. The only significant increase in revenues was from the City of Darien pass-through water charges. The County bills customers and collects water revenue for the City of Darien. The revenue is then remitted to the City of Darien each billing period. In May 2016, the City of Darien raised its water rates approximately 25%. During FY2016, consumption for the City of Darien fell slightly.

Miscellaneous income was flat.

Administrative fees were flat from 2015 to 2016. The bi-monthly fee charged to customers for billing and meter reading remained unchanged at \$5.78.

User connection income increased by 300%. During 2016, there were six large sewer permits issued totaling over \$830,000.

During 2016, contributed revenue included a vehicle transferred at no cost from another County department to the Public Works Department with a net book value of \$18,987. Whereas, in 2015, there was a water main, a sewer main, and a pressure adjusting and metering station that were contributed by special services areas.

Expenses

Overall Salaries and Employee Benefits increased 1.67%. The increase was due to a cost of living salary increase of 2% in FY2016.

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

Commodity expenses were relatively flat. Equipment parts and supplies increased slightly, but chemicals and gases decreased slightly during 2016. There was an increase of approximately \$25,000 in chemicals. The use of chemicals is weather dependent and varies from year to year. The falling price of gasoline and diesel fuel, created a decrease in fuel expenses of \$105,000. The expenses for automobile, machinery, and equipment parts and maintenance supplies increased by \$64,000. This is the result of the parts needed to maintain and repair the aging vehicles, buildings, and plant equipment.

Contractual expenses decreased \$537,921 or approximately 10.6% in 2016. Decreases were seen in electricity and natural gas purchases at \$156,591 or 11.66%. The stabilization of the natural gas and electricity prices as well as a mild winter contributed to the decrease in utility expenses. Water purchases decreased by \$50,674 or 2.7%. The number of gallons of water purchased dropped and the price of water dropped from \$4.85 in November 2015 to \$4.80 in January 2016. Finally, the DuPage Water Commission discontinued the fixed cost charge beginning in May 2015 resulting in decreased water costs for all of FY2016. Repairs and maintenance decreased \$110,658 after an increase of approximately \$75,000 in FY2015. During FY15, there were one-time costs to remove Parkson filters at SERWF, sealcoat roadways within Public Works properties, and repair the co-generator at Woodridge. Other contractual services decreased \$242,412 or 22.6%. The decrease was due to a decrease in allocation of indirect costs.

Other Government Services increased \$1,158,581 as a result of an increase in reimbursement to the City of Darien for water billing. The County bills customers and collects water revenue for the City of Darien. The revenue is then remitted to the City of Darien each billing period. In May 2016, the City of Darien raised its water rates approximately 25%.

Interest and Other Expenses decreased \$83,228 or 15.3%. The decrease was due to a decrease in interest expense on bonds and loans as they mature and a gain on the disposal of assets.

THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016

CAPITAL ASSETS, OTHER ASSETS AND LONG-TERM DEBT

Capital Assets

The System's investment in capital assets as of November 30, 2016 is summarized below, net of accumulated depreciation.

Land and Land Improvements	\$ 1,459,475
Sewage System	64,676,127
Water System	19,694,725
Other Property, Plant and Equipment	1,189,971
Net Intangible Assets	2,192,674
Construction in Progress	<u>1,138,687</u>
 Total Net Capital Assets	 <u>\$ 90,351,659</u>

Capital asset activity included \$1,397,828 in additions and \$151,777 of disposals. Of the capital asset additions, \$0 was contributed. Additional information on the System's capital assets can be found in Note 3 of the financial statements.

Other Assets

Other Assets decreased from \$5,187,680, in 2015 to \$4,934,374 in 2016. The decrease is directly related to the receivable for the York Township water tower and metering station that was built with funds from special service areas.

Long Term Debt

The System has three outstanding Revenue Bond issues and one outstanding loan from the Illinois Environmental Protection Agency. Revenue Bonds were issued in 2008 to advance refund and refinance outstanding bonds from 2003 and also provided \$14.9 million in new money to fund its capital improvement program. In 2012, The System issued \$2.4 million in Revenue Bonds to repay the outstanding loan to the DuPage Water Commission for the buy in fee which is a membership requirement of the commission. The System also entered into a loan agreement with the Illinois Environmental Protection Agency for the construction of the York Township water system and water tower.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016**

The following is a summary of the outstanding long-term obligations of the System as of November 30, 2016.

Series 2008A	\$ 4,645,000
Series 2008B	4,640,000
Series 2012	1,545,000
IEPA Loan (2012)	4,349,944
Unamortized debt premium	79,548
Accrued sick, vacation and retention payable	1,698,999
Other post employment benefit payable	60,278
Net pension liability	<u>3,666,995</u>
 Total Long Term Debt	 \$ <u>20,685,764</u>

Additional information on the System's long term debt can be found in Note 5 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The System is supported solely by user charges and other miscellaneous income. Miscellaneous income includes connection revenue, septic revenue, cell tower leases, and interest income.

The current economic conditions, if continued in 2017, will have an impact on connection revenue, interest income and user charges.

The connection revenue forecast for 2017 is conservative and is based on local economic conditions. It is anticipated that the connection revenues will increase slightly from 2016 to 2017. The local economy has continued to slowly recover and residential and commercial developers have started new construction and have purchased connection permits in various parts of the County. Interest income is expected to be at or near 2016 levels.

User charges may be influenced by several factors, including: 1.) An increase in consumption due to a decrease in foreclosed or vacant properties. 2.) An increase in consumption due to new housing and commercial developments. 3.) An increase in consumption as new areas are served by the System. 4.) A reduction in consumption resulting from water conservation by customers experiencing an increase in water rates. 5.) Increase or reduction in consumption due to climate conditions.

**THE WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and for the Year Ended November 30, 2016**

Over the past several years, the System converted all but one of its well water systems to Lake Michigan water. This conversion has had and will continue to have an impact on the operational expenditures for the water system as the System must now pay for Lake Michigan water. The System decommissioned the older water facilities, but will maintain them for emergency/standby sources of water.

A rate study was done in 2015 to set rates for water, sewer, sewer maintenance, and administrative fees. The purpose of the study was to allow the System to balance revenues with expenditures through 2019. User rates for the sewer system will remain at \$2.57 per thousand gallons until 2017 when they will be raised to \$2.80. Sewer maintenance rates will remain at \$.95 until 2017 when they will be increased to \$1.00 per thousand gallons. Administrative fees will remain at \$5.78 through 2019. Water rates will remain at \$9.40 until 2018 when they will be increased to \$9.85 per thousand gallons. The System continued to audit water meters with questionable readings. If the meter was found to be defective it was replaced and the System will continue to audit water meters in areas where water loss was high. In addition, the System is testing automated meter reading in its smaller water systems.

The System anticipates an increase in retirements from 2016 through 2017. This increase will have a direct impact on cash flows. DuPage County has an employee retention program that provides for a retention payment at retirement for eligible employees. In addition to this retention payment, employees receive a payout for their accrued vacation and sick time accrued prior to December 1, 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Water and Sewerage System's financial results and position for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional information may be addressed to the Financial Services Administrator at 7900 S. Route 53, Woodridge, IL 60517 or questions may be submitted to the Financial Services Administrator via email at publicworks@ec.dupageco.org.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENTS OF NET POSITION As of November 30, 2016 (With Comparative Totals for November 30, 2015)

ASSETS		
CURRENT ASSETS	2016	2015
Cash		
Operation and maintenance account	\$ 2,653,693	\$ 3,746,411
Depreciation account	3,996,946	3,466,936
Liability insurance account	1,409,454	1,284,454
Employee retention account	394,988	322,513
Workers compensation account	300,388	250,388
Total Cash	8,755,469	9,070,702
Accounts receivable - service (net of reserve for uncollectible accounts of \$750)	2,755,580	2,132,167
Unbilled service revenue	3,186,624	3,020,257
Due from County	153,471	393,110
Miscellaneous receivable	208,082	223,785
Total Current Assets	15,059,226	14,840,021
RESTRICTED ASSETS		
Cash		
First lien bond principal account	735,113	717,258
First lien bond interest account	126,630	139,763
First lien bond reserve account	1,016,127	1,016,127
Second lien bond principal account	505,049	480,449
Second lien bond interest account	97,961	107,549
Second lien bond reserve account	721,528	721,528
2012 water bond account	2,323	2,323
Total Restricted Cash	3,204,731	3,184,997
Special service area assessments receivable	4,934,374	5,187,680
Total Restricted Assets	8,139,105	8,372,677
CAPITAL ASSETS		
Utility Plant in Service		
Land and land improvements	1,459,475	1,532,945
Sewerage system	160,302,737	159,392,630
Accumulated depreciation	(95,626,610)	(93,092,648)
Net Sewerage System	64,676,127	66,299,982
Water system	30,907,894	30,945,000
Accumulated depreciation	(11,213,169)	(10,763,489)
Net Water System	19,694,725	20,181,511
Other property, plant and equipment	4,282,707	3,909,657
Accumulated depreciation	(3,092,736)	(2,883,364)
Net Other Property, Plant and Equipment	1,189,971	1,026,293
Water commission buy in	3,397,959	3,397,959
Water commission meter station	1,054,261	1,054,261
Accumulated amortization	(2,259,546)	(1,974,861)
Net Intangibles	2,192,674	2,477,359
Total Utility Plant in Service	89,212,972	91,518,090
Construction in Progress	1,138,687	281,219
Total Capital Assets	90,351,659	91,799,309
Total Assets	113,549,990	115,012,007
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	2,381,737	1,671,104
Total deferred outflows of resources	2,381,737	1,671,104

LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,458,743	\$ 1,188,723
Accrued wages	178,059	180,945
Accrued sick leave, vacation and retention - current	198,166	201,415
Charges collected for others	2,479,886	2,037,423
Payroll deductions payable	59,705	-
Due to County	148,928	1,005,387
Current Liabilities Payable From Restricted Assets		
Accrued interest payable	195,974	215,408
Current maturities of revenue bonds	1,240,000	1,195,000
Current maturities of IEPA construction loan	231,170	228,307
Total Current Liabilities	<u>6,190,631</u>	<u>6,252,608</u>
LONG-TERM LIABILITIES		
Accrued sick leave, vacation and retention - noncurrent	1,500,833	1,521,138
Revenue bonds	9,590,000	10,830,000
Unamortized debt premium	79,548	95,196
IEPA construction loans	4,118,774	4,349,943
Other post employment benefit payable	60,278	33,944
Net pension liability	<u>3,666,995</u>	<u>2,603,142</u>
Total Long-Term Liabilities	<u>19,016,428</u>	<u>19,433,363</u>
Total Liabilities	<u>25,207,059</u>	<u>25,685,971</u>
NET POSITON		
Net investment in capital assets	75,094,490	75,103,186
Restricted for debt service	7,940,808	8,154,946
Unrestricted	<u>7,689,370</u>	<u>7,739,008</u>
TOTAL NET POSITION	<u>\$ 90,724,668</u>	<u>\$ 90,997,140</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended November 30, 2016

(With Comparative Totals for the Year Ended November 30, 2015)

	Sewerage	Water	Sewer Maintenance	Administration	Total	
					2016	2015
OPERATING REVENUES						
Sewerage Service Users' Charges						
DuPage system	\$ 8,859,274	\$ -	\$ -	\$ -	\$ 8,859,274	\$ 8,859,352
Other systems	579,606	-	-	-	579,606	572,286
Water Service Users' Charges						
DuPage system	-	3,135,100	-	-	3,135,100	3,157,728
Other systems	-	6,487,748	-	-	6,487,748	5,325,419
Sewer Maintenance Users' Charges			1,469,335	-	1,469,335	1,492,645
Administrative fees	-	-	-	1,200,628	1,200,628	1,193,538
DuPage Water Commission capital buy-in fee	-	235,769	-	-	235,769	237,609
Penalties	-	-	-	204,986	204,986	185,859
Miscellaneous income	331,474	323,624	-	1,120,134	1,775,232	1,778,325
Total Operating Revenues	<u>9,770,354</u>	<u>10,182,241</u>	<u>1,469,335</u>	<u>2,525,748</u>	<u>23,947,678</u>	<u>22,802,761</u>
OPERATING EXPENSES						
Operation and Maintenance Expenses						
Personnel						
Salaries	2,847,270	950,363	673,395	1,243,180	5,714,208	5,607,705
Employee benefits	1,285,083	408,258	290,804	499,634	2,483,779	2,455,748
Commodities						
Equipment parts and supplies	569,150	218,658	117,079	49,270	954,157	901,235
Chemicals and gases	339,563	39,249	11,032	192,655	582,499	662,637
Contractual Services						
Professional services	133,521	38,415	8,324	42,028	222,288	200,885
Sludge removal	309,672	-	-	-	309,672	312,949
Natural gas	145,465	13,415	2,235	840	161,955	201,527
Electricity	933,806	70,755	18,433	1,627	1,024,621	1,141,640
Water and sewer	10,419	1,789,349	-	-	1,799,768	1,850,442
Repairs and maintenance	120,794	28,783	32,960	8,599	191,136	301,794
Reimbursements	574,473	6,487,748	-	-	7,062,221	5,903,640
Other contractual	371,317	110,390	77,197	276,573	835,477	1,073,601
Total Operation and Maintenance Expenses	<u>7,640,533</u>	<u>10,155,383</u>	<u>1,231,459</u>	<u>2,314,406</u>	<u>21,341,781</u>	<u>20,613,803</u>
Operating income before amortization and depreciation	2,129,821	26,858	237,876	211,342	2,605,897	2,188,958
Amortization of intangibles	-	284,685	-	-	284,685	284,685
Depreciation	2,684,239	486,786	-	-	3,171,025	2,958,688
Total Operating Expenses	<u>10,324,772</u>	<u>10,926,854</u>	<u>1,231,459</u>	<u>2,314,406</u>	<u>24,797,491</u>	<u>23,857,176</u>
Operating Income (Loss)	<u>(554,418)</u>	<u>(744,613)</u>	<u>237,876</u>	<u>211,342</u>	<u>(849,813)</u>	<u>(1,054,415)</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	-	-	-	56,517	56,517	66,913
Interest expense on bonds and loans	(272,622)	(160,728)	(75,070)	-	(508,420)	(559,234)
Amortization of bond premium issuance costs	-	-	-	15,649	15,649	15,649
Gain (loss) on disposal of assets	(2,888)	28,530	-	-	25,642	4,293
Total Nonoperating Revenues (Expenses)	<u>(275,510)</u>	<u>(132,198)</u>	<u>(75,070)</u>	<u>72,166</u>	<u>(410,612)</u>	<u>(472,379)</u>
Income (Loss) before contributions	(829,928)	(876,811)	162,806	283,508	(1,260,425)	(1,526,794)
CONNECTION CHARGES	954,349	14,617	-	-	968,966	322,535
CAPITAL CONTRIBUTIONS	18,987	-	-	-	18,987	1,252,386
CHANGE IN NET POSITION	<u>\$ 143,408</u>	<u>\$ (862,194)</u>	<u>\$ 162,806</u>	<u>\$ 283,508</u>	<u>(272,472)</u>	<u>48,127</u>
NET POSITION, Beginning of Year					90,997,140	91,495,181
Cumulative Effect of a Change in Accounting Principle					-	(546,168)
NET POSITION - END OF YEAR					<u>\$90,724,668</u>	<u>\$90,997,140</u>

See accompanying notes to financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

STATEMENTS OF CASH FLOWS For the Year Ended November 30, 2016 (With Comparative Totals for November 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 21,176,076	\$ 21,133,289
Payments to employees for services	(7,777,306)	(7,828,749)
Payments to suppliers for goods and services	(12,816,071)	(12,471,288)
Other revenue	2,043,311	1,448,705
Net Cash Flows From Operating Activities	<u>2,626,010</u>	<u>2,281,957</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment (to) from other funds	<u>(616,817)</u>	<u>384,233</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>56,517</u>	<u>66,913</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,481,014)	(2,047,116)
Principal payments on revenue bonds	(1,195,000)	(1,150,000)
Principal payments on IEPA loan	(228,307)	(393,087)
Interest payments on bonds and loans	(527,854)	(576,985)
Proceeds from the sale of capital assets	102,000	-
Proceeds from connection charges	968,966	322,535
Net Cash Flows From Capital and Related Financing Activities	<u>(2,361,209)</u>	<u>(3,844,653)</u>
Net Change in Cash and Cash Equivalents	(295,499)	(1,111,550)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>12,255,699</u>	<u>13,367,249</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 11,960,200</u></u>	<u><u>\$ 12,255,699</u></u>
RECONCILIATION TO STATEMENTS OF NET POSITION		
Cash	\$ 8,755,469	\$ 9,070,702
Restricted cash	<u>3,204,731</u>	<u>3,184,997</u>
CASH AND CASH EQUIVALENTS	<u><u>\$ 11,960,200</u></u>	<u><u>\$ 12,255,699</u></u>

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (849,813)	\$ (1,054,415)
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities		
Depreciation	3,171,025	2,958,688
Amortization of other assets	284,685	284,685
Changes in assets and liabilities and deferred outflows of resources		
Accounts receivable, net	(623,413)	142,572
Accrued unbilled service revenue	(166,367)	34,358
Due from special service area	253,306	(216,760)
Miscellaneous receivable	15,703	(112,860)
Deferred outflows of resources related to pensions	(710,633)	(1,165,518)
Accounts payable	(314,398)	2,464
Payroll deductions payable	59,705	-
Accrued sick leave, vacation, retention and wages payable	(26,440)	69,143
Other post employment benefits payable	26,334	27,999
Net pension obligation payable	-	(124,154)
Net pension liability	1,063,853	1,427,234
Charges collected for others	442,463	8,521
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,626,010</u>	<u>\$ 2,281,957</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	<u>\$ 18,987</u>	<u>\$ 5,854,916</u>

See accompanying notes to financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Water and Sewerage System of DuPage County, Illinois (System) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the System are described below.

REPORTING ENTITY

The System began operations in 1962 and is an enterprise fund of DuPage County (County). The System, which is operated by the DuPage County Public Works Department, owns and operates sewerage collection and treatment facilities along with water pumping and distribution systems in certain areas of the County. Financial policies and regulations are established and adopted by the passage of a governing ordinance (ordinance). The System consists of an operating fund and multiple bond, interest, and reserve accounts required by ordinances described in Note 5. All intrafund transactions are eliminated.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The System is presented as an enterprise fund of the County. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and 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 or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET POSITION

Cash and Investments

The System's cash and investments consist of demand deposits. For the statement of cash flows, cash equivalents have original maturities of three months or less from the date of acquisition.

Illinois Statutes authorize the System to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

The System follows the investment policy adopted by the County. That policy follows the state statute for allowable investments. Additionally, the System's restricted cash and cash equivalents must be invested in qualified investments as directed by the revenue bond ordinance relating to the Series 2008A, Series 2008B and Series 2012 Water and Sewerage System Revenue Bonds. Qualified investments shall mean:

- (1) direct obligations of, or obligations the timely payment of which is fully guaranteed by, the United States of America;
- (2) certificates of deposit or time deposits issued by any bank or savings and loan institution and
 - (i) insured by the Federal Deposit Insurance Corporation or
 - (ii) to the extent not insured as described in (i), secured by obligations described in (1) above held by the depository which have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificate or time deposit;
- (3) obligations of the Federal Home Loan Bank, Federal Farm Credit Administration, Federal National Mortgage Association, Federal Intermediate Credit Banks, Bank for Cooperatives or the Federal Land Bank;
- (4) obligations of any state which are rated in either of the two highest rating categories by both Moody's Investors Service and Standard & Poor's Rating Services (or a nationally recognized successor of either);

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET POSITION (cont.)

- (5) repurchase agreements extending not more than 30 days with any banks which are members of the Federal Reserve System or with government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York that are secured by obligations described in (1) above which obligations
- (i) have a current market value at least equal to 103% of the amount of the repurchase agreement, marked to market weekly and
 - (ii) have been deposited in trust by such banks or dealers with a Federal Reserve Bank or branch for the benefit of the County and the appropriate fund or account as collateral security for such repurchase agreements; and
- (6) obligations of any state or political subdivision or instrumentality of any state which are secured by obligations described in (1) above.

Receivables/Payables

Outstanding balances between the System and other funds of the County are reported as due to/from County funds. The System and the County perform services for one another, in some instances without the exchange of cash. A due to/from is set up to track the balance of what is owed by each party. As activity is back and forth, the interfund balance is considered to be current.

The System states accounts receivable at the amounts billed to customers. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. When both restricted and unrestricted resources are available for use and using restricted resources is appropriate, it is the System's policy to use restricted resources first, then unrestricted resources.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET POSITION (cont.)

Capital Assets

Capital assets purchased, constructed and obtained through federal grants are recorded at cost or estimated historical cost. Major outlays for System plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred by the System during the current fiscal year was \$508,420. Of this amount, none was included as part of capital assets under construction in progress due to the bond proceeds being spent down in prior years. Certain System plant and sewer systems acquired under agreements providing for connections in lieu of cash are recorded at the value of the connection charges at the time of fulfillment of all prepaid connections due under each applicable agreement. In addition, certain contributed property has been recorded at the donor's cost or engineering estimate, whichever was lower at the time the property contributed was recorded. A minimum capitalization threshold of \$25,000 and an estimated useful life greater than one year has been established for capital asset reporting.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of these assets, generally between 3 and 70 years. Expenditures which significantly extend the lives or expand capacity of the capital assets are capitalized. All other repairs and maintenance are charged to operations currently.

Accrued Vacation, Sick Leave and Retention

The System has accrued its estimated liability for compensated absences relating to accrued vacation, sick leave, and the employee retention program for eligible employees as of November 30, 2016. The liability is liquidated from general operating revenues of the System.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Issuance costs are expensed in the period incurred.

REVENUES AND EXPENSES

The System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the System's principal ongoing operations. The principal operating revenues of the System is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded bi-monthly based on metered usage. The System accrues revenues beyond billing dates. Current water and sewerage rates were approved by the Public Works Committee on December 6, 2011 to adjust water and sewer rates effective January 1, 2013. The motion also incorporated water rate changes effective January 1, 2014 and January 1, 2015.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET POSITION (cont.)

Operating Expenses

The System accounts for direct sewerage, sewer maintenance, and water system operating expenses separately. Common indirect expenses are allocated to various operating expenses of sewerage, sewer maintenance, and water operations based on the benefits those costs provide. In addition, the System accounts for certain administrative expenses separately.

Capital Contributions

Cash and capital assets are contributed to the System from customers, the County, or external parties. The value of property contributed to the System is reported as revenue on the statements of revenues, expenses, and changes in net position.

The System charges new customers a connection fee to connect to the System. Fees collected are recorded as capital contributions on the statements of revenues, expenses, and changes in net position.

Comparative Data

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended November 30, 2015, from which such summarized information was derived.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, GASB Statement No. 80, Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14, GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pension Issues, GASB Statement No. 83, Certain Asset Retirement Obligations, GASB Statement No. 84, Fiduciary Activities, and GASB Statement No. 85, Omnibus 2017. Application of these standards may restate portions of these financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 2 – CASH AND INVESTMENTS

The System is covered under the County's investment policy, which states that time deposits in excess of FDIC or FSLIC insurable limits must be secured by some sort of collateral to protect public deposits in a single financial institution if it were to default due to poor management or economic factors. All non FDIC or FSLIC financial institutions must fully collateralize deposits.

As of November 30, 2016, cash and cash equivalents at year end consisted of the following:

	Carrying Value	Bank Balance	Associated Risks
Deposits with financial institutions	<u>\$ 11,960,200</u>	<u>\$ 11,709,115</u>	Custodial credit
Per statement of net position			
Cash	\$ 8,755,469		
Restricted cash	<u>3,204,731</u>		
Total deposits and investments	<u>\$ 11,960,200</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held at an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

The System maintains separate cash and investment accounts at the same financial institutions utilized by the County. Federal depository insurance applies to all County accounts, and accordingly, the amount of insured funds is not determinable for the System alone. Therefore, coverage for the System may be reduced. Further information about whether County deposits are insured, collateralized, or uncollateralized is available from the County's financial statements.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to the System.

The System is covered under the County's investment policy, which states that time deposits in excess of FDIC or FSLIC insurable limits must be secured by collateral to protect public deposits in a single financial institution if it were to default due to poor management or economic factors. All non FDIC or FSLIC financial institutions must fully collateralize deposits. Further information about whether County deposits are insured, collateralized, or uncollateralized is available from the County's financial statements.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2016, was as follows:

	Balance Beginning	Additions/ Transfers	Transfers/ Disposal	Balance Ending
Capital assets, not being depreciated				
Land	\$ 1,532,945	\$ -	\$ 73,470	\$ 1,459,475
Land improvements	-	-	-	-
Construction in progress	281,219	2,150,254	1,292,786	1,138,687
Total Capital Assets Not Being Depreciated	1,814,164	2,150,254	1,366,256	2,598,162
Capital assets being depreciated/amortized				
Sewerage treatment plant	88,669,187	532,194	8,560	89,192,821
Sewerage systems	70,723,443	386,473	-	71,109,916
Total Sewerage System	159,392,630	918,667	8,560	160,302,737
Water pumping facility	13,970,042	-	37,106	13,932,936
Water supply	16,974,958	-	-	16,974,958
Total Water System	30,945,000	-	37,106	30,907,894
Data processing equipment	352,193	84,611	85,288	351,516
Other machinery and equipment	771,187	26,132	-	797,319
Autos and trucks	2,701,303	368,418	20,823	3,048,898
Furniture and office equipment	84,974	-	-	84,974
Total Equipment	3,909,657	479,161	106,111	4,282,707
Water commission buy in	3,397,959	-	-	3,397,959
Water commission meter station	1,054,261	-	-	1,054,261
Total Intangibles	4,452,220	-	-	4,452,220
Total Capital Assets Being Depreciated/Amortized	198,699,507	1,397,828	151,777	199,945,558
Less: Accumulated depreciation/amortization				
Sewerage System	(93,092,648)	(2,539,634)	(5,672)	(95,626,610)
Water System	(10,763,489)	(486,786)	(37,106)	(11,213,169)
Equipment	(2,883,364)	(315,483)	(106,111)	(3,092,736)
Intangibles	(1,974,861)	(284,685)	-	(2,259,546)
Total Accumulated Depreciation/Amortization	(108,714,362)	(3,626,588)	(148,889)	(112,192,061)
Total Capital Assets Being Depreciated/Amortized, Net	89,985,145	(2,228,760)	2,888	87,753,497
Net Capital Assets	\$ 91,799,309			\$ 90,351,659

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 4 – RESTRICTED ASSETS – SPECIAL SERVICE AREA ASSESSMENTS RECEIVABLE

As of November 30, 2016, the System has \$4,934,374 due from the County's special service area funds. The balance related to the reimbursement of costs for the York Township water improvement project. The reimbursement will be repaid in installments through fiscal year 2033 and \$4,678,203 of the reimbursement is due after one year.

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended November 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue Bonds	\$ 12,025,000	\$ --	\$ 1,195,000	\$ 10,830,000	\$ 1,240,000
Other Liabilities:					
IEPA construction loans	4,578,250	-	228,306	4,349,944	231,170
Unamortized debt premium	95,196	-	15,648	79,548	-
Accrued compensated absences	1,722,553	407,884	431,438	1,698,999	198,166
Other post-employment benefit payable	33,944	26,334	-	60,278	-
Net pension liability	2,603,142	1,063,853	-	3,666,995	-
Total Long-Term Obligations	<u>\$ 21,058,085</u>	<u>\$ 1,498,071</u>	<u>\$ 1,870,392</u>	<u>\$ 20,685,764</u>	<u>\$ 1,669,336</u>

REVENUE BONDS PAYABLE

Revenue bonds outstanding at year end are as follows:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 11/30/16
7/23/2008	Refund bonds and construction of plant	1/1/2024	4.5%	\$ 8,250,000	\$ 4,645,000
7/23/2008	Refund bonds and construction of plant	1/1/2024	4.5%	8,250,000	4,640,000
4/25/2012	DuPage Water Commission buy-in	1/1/2022	3%-4%	2,445,000	1,545,000
Total				<u>\$ 18,945,000</u>	<u>\$ 10,830,000</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS PAYABLE (cont.)

Future Bond Payments

Fiscal Year	Series 2008A		
	Bond Principal	Interest	Total
2017	\$ 500,000	186,069	686,069
2018	520,000	165,669	685,669
2019	545,000	144,369	689,369
2020	565,000	121,816	686,816
2021	590,000	97,625	687,625
2022-2024	1,925,000	131,643	2,056,643
Totals	\$ 4,645,000	\$ 847,191	\$ 5,492,191

Fiscal Year	Series 2008B		
	Bond Principal	Interest	Total
2017	\$ 505,000	185,719	690,719
2018	525,000	165,119	690,119
2019	545,000	143,719	688,719
2020	565,000	121,166	686,166
2021	585,000	97,081	682,081
2022-2024	1,915,000	130,976	2,045,976
Totals	\$ 4,640,000	\$ 843,780	\$ 5,483,780

Fiscal Year	Series 2012		
	Bond Principal	Interest	Total
2017	\$ 235,000	52,000	287,000
2018	245,000	43,625	288,625
2019	250,000	34,950	284,950
2020	265,000	25,975	290,975
2021	270,000	16,600	286,600
2022	280,000	5,600	285,600
Totals	\$ 1,545,000	\$ 178,750	\$ 1,723,750

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

PLEDGED REVENUES

The System has pledged a portion of future net revenues to repay the revenue bonds issued on July 23, 2008 and April 25, 2012. The bonds are payable solely from the revenues generated by the System and are payable through January 1, 2024. The total principal and interest remaining on the bonds is \$12,699,721. For the current year, principal and interest paid and total net revenues were \$1,666,337 and \$3,631,380, respectively. Annual principal and interest are expected to require approximately 5% of gross revenues.

WATER AND SEWERAGE SYSTEM REVENUE BOND ORDINANCE

On July 21, 2008, the County Board adopted a revenue bond ordinance authorizing and providing for the issuance of Water and Sewerage System Revenue Bonds, Series A of 2008 and Series B of 2008. On March 13, 2012, the County Board adopted a revenue bond ordinance authorizing and providing for the issuance of Water and Sewerage System Revenue Bonds, Series 2012. The 2008 and 2012 Ordinances required a "Revenue Fund" and various accounts within that fund to be established. The Ordinances account structure is as follows:

Operation and Maintenance Account – An amount sufficient to make the amount then on deposit equal to 1/12th of the amount of current expenses budgeted for the current fiscal year.

First Lien Interest Account – An amount sufficient to cover interest becoming due on the next succeeding interest payment date on a monthly pro rata basis.

First Lien Principal Account – An amount sufficient to cover principal becoming due on the next succeeding principal payment date on a monthly pro rata basis.

First Lien Bond Reserve Account – An amount equal to the maximum annual debt service with respect to the 2008A and 2012 Revenue Bonds.

Second Lien Interest Account – An amount sufficient to cover interest becoming due on the next succeeding interest payment date on a monthly pro rata basis.

Second Lien Principal Account – An amount sufficient to cover principal becoming due on the next succeeding principal payment date on a monthly pro rata basis.

Second Lien Bond Reserve Account – An amount equal to the maximum annual debt service with respect to the 2008B Revenue Bonds.

Subordinated Indebtedness Account – An amount sufficient to cover interest becoming due on the IEPA construction loan on the next succeeding interest payment date, and an amount sufficient to cover the principal of the loan coming due on the next succeeding principal maturity date.

Depreciation Account – An amount equal to the percentage of the Depreciation Funding Requirement as determined by the Superintendent of Public Works whenever the balance in said account is less than the Depreciation Funding Requirement.

General Account – All revenues remaining in the Revenue Fund after all required transfers are made to the respective accounts.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

WATER AND SEWERAGE SYSTEM REVENUE BOND ORDINANCE (cont.)

Deposits held in the Revenue Fund are required to be transferred, when available, to the established accounts in the above order.

At November 30, 2016, all required balances were in accordance with the Ordinance.

NOTE 6 – IEPA CONSTRUCTION LOANS

The System borrowed funds from the Illinois Environmental Protection Agency (IEPA) for the York Township water improvement project. The original principal amount to be repaid under the loan agreement #L17-4161 with the IEPA is \$4,915,421. The loan bears an interest rate of 1.25% per annum and matures on September 29, 2033. The total principal paid in fiscal year 2016 was \$228,306.

Payments due on the IEPA Construction Loan #L17-4161 through maturity are as follows:

<u>Fiscal Year</u>	<u>IEPA Construction Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 231,170	\$ 53,654	\$ 284,824
2018	234,069	50,755	284,824
2019	237,004	47,820	284,824
2020	239,975	44,849	284,824
2021	242,985	41,840	284,825
2022-2026	1,261,396	162,725	1,424,121
2027-2031	1,342,488	81,633	1,424,121
2032-2033	560,857	8,791	569,648
Totals	\$ <u>4,349,944</u>	\$ <u>492,067</u>	\$ <u>4,842,011</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 7 – NET POSITION

GASB No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the System's net investment in capital assets:

Capital assets, net of accumulated depreciation	\$ 90,351,659
Less: Capital related debt	
Current portion of capital related IEPA construction loan	231,170
Current portion of capital related revenue bonds	1,240,000
Long-term portion of capital related IEPA construction loans	4,118,774
Long-term portion of capital related revenue bonds	9,590,000
Unamortized debt premium	79,548
Sub-Total	<u>15,259,492</u>
Add: Unspent debt proceeds – water and sewer bond account	<u>2,323</u>
Total Net Investment in Capital Assets	<u>\$ 75,094,490</u>

The following calculation supports the System's net position restricted for debt service:

Total restricted assets	\$ 8,139,105
Unspent debt proceeds – water and sewer bond account	(2,323)
Liabilities payable from restricted assets:	
Accrued interest payable	<u>(195,974)</u>
Total Net Position Restricted for Debt Service	<u>\$ 7,940,808</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 8 – RISK MANAGEMENT

The System maintains a managed self-insured automobile and liability risk management program. Under this program, the System retains the first \$2,000,000 of general claim risk per occurrence. An additional insurance policy covers claims in excess of this amount. Liabilities of the program are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An amount for claims incurred but not yet reported has not been accrued in the financial statements at November 30, 2016, due to minimal claims experience over the past three years. There have been no significant reductions in insurance coverage from coverage in the prior years. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

Employees of the System are covered for health benefits and workers' compensation under the DuPage County self-insurance program, reported in an Internal Service Fund of the County. The System is charged a share of the overall program cost, which totaled \$788,909 in fiscal 2016. See the DuPage County Comprehensive Annual Financial Report for additional information.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

ILLINOIS MUNICIPAL RETIREMENT FUND

The System contributes to the Illinois Municipal Retirement Fund (IMRF) an agent multiple employer pension plan that acts as a common investment and administrative agent for local governments and school districts in Illinois through DuPage County, Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

The employees of the System are pooled with the employees of DuPage County for purposes of actuarial valuation. As the System is participating under the County's employer number, IMRF is considered to be a cost-sharing plan for the System.

Plan Description. All employees hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members. IMRF has a two tier plan. Members who first participated in IMRF or an Illinois Reciprocal System prior to January 1, 2011 participate in Tier 1. All other members participate in Tier 2. For Tier 1 participants, pension benefits vest after 8 years of service. Participating members who retire at or after age 60 with 8 years of service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 1 2/3% of their final rate of earnings (average of the highest 48 consecutive months' earnings during the last 10 years) for credited service up to 15 years and 2% for each year thereafter.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 9 – DEFINED BENEFIT PENSION PLAN (cont.)

ILLINOIS MUNICIPAL RETIREMENT FUND (cont.)

For Tier 2 participants, pension benefits vest after 10 years of service. Participating members who retire at or after age 67 with 10 years of service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 1 2/3% of their final rate of earnings (average of the highest 96 consecutive months' earnings during the last 10 years, capped at \$106,800) for credited service up to 15 years and 2% for each year thereafter. However, an employee's total pension cannot exceed 75% of their final rate of earnings. If an employee retires after 10 years of service between the ages of 62 and 67, and has less than 30 years of service credit, the pension will be reduced by 1/2% for each month that the employee is under the age of 67. If an employee retires after 10 years of service between the ages of 62 and 67, and has between 30 and 35 years of service credit, the pension will be reduced by the lesser of 1/2% for each month that the employee is under the age of 67 or 1/2% for each month of service credit less than 35 years. IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by Illinois Compiled Statutes.

Contributions. As set by statute, System employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The statute requires the System to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The System's actuarially determined contribution rate for calendar year 2015 was 9.02% percent of annual covered payroll. The System also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Fiduciary Net Position. Detailed information about the IMRF fiduciary net position as of December 31, 2015 is available in the separately issued DuPage County, Illinois Comprehensive Annual Financial Report as of and for the year ended November 30, 2016.

Net Pension Liability. At November 30, 2016, the System reported a liability for its proportionate share of the net pension liability that reflected the System's portion of the total net pension liability associated with the County's employer number. The amount recognized by the System as its proportionate share of the net pension liability, the County's share of the net pension liability, and the total net pension liability associated with the County's employer number were as follows:

System's proportionate share of the collective net pension liability	\$	3,666,995
County's proportionate share of the collective net pension liability		<u>114,626,018</u>
Total	\$	<u>118,293,013</u>

The net pension liability was measured as of December 31, 2015. The System's proportion of the net pension liability was based on the System's share of contributions to IMRF for the fiscal year ended November 30, 2016, relative to the total contributions of the System and County during that period. At November 30, 2016, the System's proportion was 3.10%.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 9 – DEFINED BENEFIT PENSION PLAN (cont.)

ILLINOIS MUNICIPAL RETIREMENT FUND (cont.)

Summary of Significant Accounting Policies. For purposes of measuring the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of IMRF and additions to/deductions from IMRF fiduciary net position have been determined on the same basis as they are reported by IMRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Actuarial Assumptions. The assumptions used to measure the total pension liability in the December 31, 2015 annual actuarial valuation included a 7.47% investment rate of return, (b) projected salary increases from 3.75% to 14.50%, including inflation, and (c) inflation of 3.50% and price inflation of 2.75%. The retirement age is based on experience-based table of rates that are specific to the type of eligibility condition. The tables were last updated for the 2014 valuation pursuant to an experience study of the period 2011-2013.

Mortality. For non-disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustments that were applied for non-disabled lives. For active members, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Long-Term Expected Real Rate of Return. The long-term expected rate of return on pension plan investments was determined using an asset allocation study in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Allocation	Arithmetic	Geometric
Equities	38.00 %	8.85 %	7.39 %
International equities	17.00 %	9.55 %	7.59 %
Fixed income	27.00 %	3.05 %	3.00 %
Real estate	8.00 %	7.20 %	6.00 %
Alternatives	9.00 %		
Private equity		13.15 %	8.15 %
Hedge funds		5.55 %	5.25 %
Commodities		4.40 %	2.75 %
Cash equivalents	1.00 %	2.25 %	2.25 %

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 9 – DEFINED BENEFIT PENSION PLAN (cont.)

ILLINOIS MUNICIPAL RETIREMENT FUND (cont.)

Discount Rate. The discount rate used to measure the total collective pension liability for IMRF was 7.47%. The discount rate calculated using the December 31, 2014 measurement date was 7.49%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that System's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments of 7.50% was blended with the index rate of 3.57% for tax exempt 20-year general obligation municipal bonds with an average AA credit rating at December 31, 2015 to arrive at a discount rate of 7.47% used to determine the total pension liability. The year ending December 31, 2084 is the last year in the 2016 to 2115 projection period for which projected benefit payments are fully funded.

Discount Rate Sensitivity. The following is a sensitivity analysis of the System's proportionate share of the net pension liability / (asset) to changes in the discount rate. The table below presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.47% as well as what the System's proportionate share of the net pension liability / (asset) would be if it were to be calculated using a discount rate that is 1 percentage point lower (6.47%) or 1 percentage point higher (8.47%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
System's proportionate share of the collective net pension liability	\$ 6,823,345	\$ 3,666,995	\$ 1,093,680

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended November 30, 2016, the System recognized pension expense of \$955,185. The System reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 88,431	\$ -
Changes in assumptions	462,515	-
Net difference between projected and actual earnings on pension plan investments	1,383,328	-
Contributions subsequent to the measurement date	447,463	-
Total	<u>\$ 2,381,737</u>	<u>\$ -</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 9 – DEFINED BENEFIT PENSION PLAN (cont.)

ILLINOIS MUNICIPAL RETIREMENT FUND (cont.)

The amount reported as deferred outflows resulting from contributions subsequent to the measurement date in the above table will be recognized as a reduction in the net pension liability/(asset) for the year ending November 30, 2016. The remaining amounts reported as deferred outflows and inflows of resources related to pensions (\$1,934,274) will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2016	\$ 774,206
2017	489,532
2018	368,363
2019	302,173
Total	<u>\$ 1,934,274</u>

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

The County provides limited health-care insurance for certain eligible employees. The Plan provides an explicit premium subsidy to certain employees who meet eligibility conditions, and other coverage to certain employees as a function of their early retirement agreements. The County's annual other postemployment benefit costs are calculated based on the annual required contribution of the employer as determined by an actuary in accordance with parameters of Governmental Accounting Standards Board Statement No. 45. The County's annual required contribution and actual contribution for the past three years was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	<u>\$ 1,174,102</u>	<u>\$ 1,378,138</u>	<u>\$ 870,187</u>
Actual Contribution	<u>\$ 974,872</u>	<u>\$ 923,780</u>	<u>\$ 762,978</u>

The 2016 annual required contribution and actual contribution were estimated based on the prior year actuarial valuation. As of November 30, 2016, the estimated portion of the County's other post employment benefit obligation payable applicable to the System was \$60,278. Please refer to the County's financial statements for additional information concerning the plan and the other postemployment benefit obligation.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended November 30, 2016

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Claims and Judgments

From time to time, the System is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the System's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the System's financial position or results of operations.

Open Contracts

The System has signed construction contracts that continue into subsequent years. These contracts are for windows and installation at the Woodridge-Greene Valley Wastewater Facility and CIPP sanitary sewer lining. The value of service provided and corresponding liability as of November 30, 2016 has been accrued in these financial statements. The value of service to be provided in subsequent fiscal years has not been accrued and is approximately \$101,157.

REQUIRED SUPPLEMENTARY INFORMATION

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

ILLINOIS MUNICIPAL RETIREMENT FUND SCHEDULE OF SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SYSTEM CONTRIBUTIONS Most Recent Two Fiscal Years

	November 30	
	<u>2016</u>	<u>2015</u>
System's proportion of the net pension liability	3.10%	3.57%
System's proportionate share of the net pension liability	\$ 3,666,995	\$ 2,603,142
County's proportionate share of the net pension liability	<u>114,626,018</u>	<u>70,315,392</u>
Total net pension liability	<u>\$ 118,293,013</u>	<u>\$ 72,918,534</u>
Covered-employee payroll	\$ 3,932,215	\$ 4,466,442
System's proportionate share of the net pension liability as a percentage of covered payroll	93.26%	58.28%
Plan fiduciary net position as a percentage of the total pension liability	85.43%	90.58%
Contractually required contribution	\$ 444,340	\$ 518,544
Contributions in relation to the contractually required contribution	<u>(444,153)</u>	<u>(515,746)</u>
Contribution deficiency (excess)	<u>\$ 188</u>	<u>\$ 2,798</u>
Contributions as a percentage of covered employee payroll	11.30%	11.55%

Note: The System implemented GASB 68 in 2015. Information for fiscal years prior to 2015 is not applicable.

SUPPLEMENTARY INFORMATION

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

COMBINING SCHEDULE OF NET POSITION As of November 30, 2016

	Bond and Interest Accounts	Bond Reserve Accounts	2012 Water Bond Account	Other Accounts	Total
ASSETS					
CURRENT ASSETS					
Cash					
Operation and maintenance account	\$ -	\$ -	\$ -	\$ 2,653,693	\$ 2,653,693
Depreciation account	-	-	-	3,996,946	3,996,946
Liability insurance account	-	-	-	1,409,454	1,409,454
Employee retention account	-	-	-	394,988	394,988
Workers compensation account	-	-	-	300,388	300,388
Total Cash	-	-	-	8,755,469	8,755,469
Accounts receivable - service	-	-	-	2,755,580	2,755,580
Unbilled service revenue	-	-	-	3,186,624	3,186,624
Due from County	-	-	-	153,471	153,471
Miscellaneous receivable	-	-	-	208,082	208,082
Total Current Assets	-	-	-	15,059,226	15,059,226
RESTRICTED ASSETS					
Cash					
First lien bond principal account	735,113	-	-	-	735,113
First lien bond interest account	126,630	-	-	-	126,630
First lien bond reserve account	-	1,016,127	-	-	1,016,127
Second lien bond principal account	505,049	-	-	-	505,049
Second lien bond interest account	97,961	-	-	-	97,961
Second lien bond reserve account	-	721,528	-	-	721,528
2012 water bond account	-	-	2,323	-	2,323
Total Restricted Cash	1,464,753	1,737,655	2,323	-	3,204,731
Special service area assessments receivable	-	-	-	4,934,374	4,934,374
Total Restricted Assets	1,464,753	1,737,655	2,323	4,934,374	8,139,105
CAPITAL ASSETS					
Utility Plant in Service					
Land and land improvements	-	-	-	1,459,475	1,459,475
Sewerage system	-	-	-	160,302,737	160,302,737
Accumulated depreciation	-	-	-	(95,626,610)	(95,626,610)
Net Sewerage System	-	-	-	64,676,127	64,676,127
Water system	-	-	-	30,907,894	30,907,894
Accumulated depreciation	-	-	-	(11,213,169)	(11,213,169)
Net Water System	-	-	-	19,694,725	19,694,725
Other property, plant and equipment	-	-	-	4,282,707	4,282,707
Accumulated depreciation	-	-	-	(3,092,736)	(3,092,736)
Net Property, Plant and Equipment	-	-	-	1,189,971	1,189,971
Water commission buy in	-	-	-	3,397,959	3,397,959
Water commission meter station	-	-	-	1,054,261	1,054,261
Accumulated amortization	-	-	-	(2,259,546)	(2,259,546)
Net Intangibles	-	-	-	2,192,674	2,192,674
Total Utility Plant in Service	-	-	-	89,212,972	89,212,972
Construction in progress	-	-	-	1,138,687	1,138,687
Total Capital Assets	-	-	-	90,351,659	90,351,659
Total Assets	1,464,753	1,737,655	2,323	110,345,259	113,549,990
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	-	-	-	2,381,737	2,381,737

	Bond and Interest Accounts	Bond Reserve Accounts	2012 Water Bond Account	Other Accounts	Total
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ 1,458,743	\$ 1,458,743
Accrued wages	-	-	-	178,059	178,059
Current accrued sick leave, vacation and retention	-	-	-	198,166	198,166
Charges collected for others	-	-	-	2,479,886	2,479,886
Payroll deductions payable	-	-	-	59,705	59,705
Due to County	-	-	-	148,928	148,928
Current Liabilities Payable From Restricted Assets					
Accrued interest payable	195,974	-	-	-	195,974
Current maturities of revenue bonds	-	-	-	1,240,000	1,240,000
Current maturities of IEPA construction loans	-	-	-	231,170	231,170
Total Current Liabilities	<u>195,974</u>	<u>-</u>	<u>-</u>	<u>5,994,657</u>	<u>6,190,631</u>
LONG-TERM LIABILITIES					
Noncurrent accrued sick leave, vacation and retention	-	-	-	1,500,833	1,500,833
Revenue bonds	-	-	-	9,590,000	9,590,000
Unamortized debt premium	-	-	-	79,548	79,548
IEPA construction loans	-	-	-	4,118,774	4,118,774
Other post employment benefit payable	-	-	-	60,278	60,278
Net pension liability	-	-	-	3,666,995	3,666,995
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,016,428</u>	<u>19,016,428</u>
Total Liabilities	<u>195,974</u>	<u>-</u>	<u>-</u>	<u>25,011,085</u>	<u>25,207,059</u>
NET POSITION					
Net investment in capital assets	-	-	2,323	75,092,167	75,094,490
Restricted for debt service	1,268,779	1,737,655	-	4,934,374	7,940,808
Unrestricted	-	-	-	7,689,370	7,689,370
TOTAL NET POSITION	<u>\$ 1,268,779</u>	<u>\$ 1,737,655</u>	<u>\$ 2,323</u>	<u>\$ 87,715,911</u>	<u>\$ 90,724,668</u>

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

COMBINING SCHEDULE OF CHANGES IN CASH AND CASH EQUIVALENTS For the Year Ended November 30, 2016

	Operation and Maintenance Account	Bond and Interest Accounts				
		First Lien Principal Account	First Lien Interest Account	Second Lien Principal Account	Second Lien Interest Account	Subordinated Indebtedness Account
CASH RECEIPTS						
Service charges	\$ 21,176,076	\$ -	\$ -	\$ -	\$ -	\$ -
Connection charges	968,966	-	-	-	-	-
Interest income	56,517	-	-	-	-	-
Transfers (to) from, net	(4,229,394)	732,855	252,786	504,600	195,830	284,824
Payments from other funds	(616,817)	-	-	-	-	-
Other, net	2,145,311	-	-	-	-	-
Total Cash Receipts	<u>19,500,659</u>	<u>732,855</u>	<u>252,786</u>	<u>504,600</u>	<u>195,830</u>	<u>284,824</u>
CASH DISBURSEMENTS						
Operating expenses	20,593,377	-	-	-	-	-
Acquisition and construction of capital assets	-	-	-	-	-	-
Principal and interest expense	-	715,000	265,919	480,000	205,418	284,824
Total Cash Disbursements	<u>20,593,377</u>	<u>715,000</u>	<u>265,919</u>	<u>480,000</u>	<u>205,418</u>	<u>284,824</u>
Excess (Deficiency) of Cash Receipts Over Cash Disbursements	(1,092,718)	17,855	(13,133)	24,600	(9,588)	-
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,746,411</u>	<u>717,258</u>	<u>139,763</u>	<u>480,449</u>	<u>107,549</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,653,693</u>	<u>\$ 735,113</u>	<u>\$ 126,630</u>	<u>\$ 505,049</u>	<u>\$ 97,961</u>	<u>\$ -</u>
CONSISTING OF						
Demand deposits	<u>2,653,693</u>	<u>735,113</u>	<u>126,630</u>	<u>505,049</u>	<u>97,961</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,653,693</u>	<u>\$ 735,113</u>	<u>\$ 126,630</u>	<u>\$ 505,049</u>	<u>\$ 97,961</u>	<u>\$ -</u>

Bond Reserve Accounts

<u>First Lien Bond Reserve Account</u>	<u>Second Lien Bond Reserve Account</u>	<u>2012 Water Bond Account</u>	<u>Depreciation Account</u>	<u>Liability Insurance Account</u>	<u>Workers' Compensation Account</u>	<u>Employee Retention Account</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,176,076
-	-	-	-	-	-	-	968,966
-	-	-	-	-	-	-	56,517
-	-	-	2,011,024	125,000	50,000	72,475	-
-	-	-	-	-	-	-	(616,817)
-	-	-	-	-	-	-	2,145,311
-	-	-	2,011,024	125,000	50,000	72,475	23,730,053
-	-	-	-	-	-	-	20,593,377
-	-	-	1,481,014	-	-	-	1,481,014
-	-	-	-	-	-	-	1,951,161
-	-	-	1,481,014	-	-	-	24,025,552
-	-	-	530,010	125,000	50,000	72,475	(295,499)
<u>1,016,127</u>	<u>721,528</u>	<u>2,323</u>	<u>3,466,936</u>	<u>1,284,454</u>	<u>250,388</u>	<u>322,513</u>	<u>12,255,699</u>
<u>\$ 1,016,127</u>	<u>\$ 721,528</u>	<u>\$ 2,323</u>	<u>\$ 3,996,946</u>	<u>\$ 1,409,454</u>	<u>\$ 300,388</u>	<u>\$ 394,988</u>	<u>\$ 11,960,200</u>
<u>1,016,127</u>	<u>721,528</u>	<u>2,323</u>	<u>3,996,946</u>	<u>1,409,454</u>	<u>300,388</u>	<u>394,988</u>	<u>11,960,200</u>
<u>\$ 1,016,127</u>	<u>\$ 721,528</u>	<u>\$ 2,323</u>	<u>\$ 3,996,946</u>	<u>\$ 1,409,454</u>	<u>\$ 300,388</u>	<u>\$ 394,988</u>	<u>\$ 11,960,200</u>

OTHER INFORMATION

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF INSURANCE COVERAGE (UNAUDITED) As of November 30, 2016

Property/Boiler	All risk building contents for scheduled amounts at each location; \$100,000 deductible - Flood and earthquake sub limit \$750,000,000 each; \$150,000 deductible	
General Liability, Auto Liability, Auto Property	\$30,000,000 coverage	\$2,000,000 self-insured retention
Employment Practices	\$2,000,000 coverage	\$100,000 self-insured retention
Underground Storage	\$2,000,000 coverage	\$100,000 deductible
Crime Coverage	\$2,000,000 coverage	\$50,000 deductible
Network Security & Privacy	\$1,000,000 coverage	\$50,000 deductible
Workers' Compensation	Statutory Coverage; self-insured retention \$1,500,000; employer limit of liability \$1,000,000	

NOTE: The Ordinance requires that the audit report include a list of all insurance policies held by the County pursuant to the Ordinance. The insurance coverage of the water and sewerage treatment plants and their operations is included in the above coverage of the County, for all County property (exclusive of those for the Health Department, which has separate coverage).

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

REQUIRED INFORMATION FOR CERTAIN CONTINUING DISCLOSURES

As of and for the Year Ending November 30, 2016

Customers

Total Metered Sewer and Water Customers

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Metered Sewer Customers	35,661	35,970	35,251	35,348	35,210	35,465	35,499	35,641	35,289	35,963
Metered Water Customers	4,701	3,148	3,163	3,078	3,111	3,174	3,214	3,273	3,309	3,324

Top 10 Sewer Customers December 2015 through November 2016

<u>Customer</u>	<u>Annual Total</u>
Willow Lake Apts Multi Unit Housing	\$224,998
Four Lakes Development Multi Unit Housing	210,105
Hinsdale Lake Multi Unit Housing	156,806
Alcatel-Lucent	154,870
EL-AD Windsor Lakes LLC Multi Unit Housing	135,380
LWV Odessa Ponds	93,830
Stratford Green Multi Unit Housing	87,652
M&M / Mars Inc.	86,768
Aramark Cleanroom Services	75,930
Benedictine University	74,284

Top 10 Water Customers December 2015 through November 2016

<u>Customer</u>	<u>Annual Total</u>
Hinsdale Lake Multi Unit Housing	\$458,727
Willow Lakes Apts Multi Unit Housing	269,762
Stratford Green Multi Unit Housing	252,237
Hinsdale Pt. Condo Assn. Multi Unit Housing	153,166
Waterfall Glen Multi Unit Housing	147,564
Baum Properties	36,975
Champagne Lodge	35,131
Com Ed/Prokarma	34,685
Royce Realty	33,014
Villas at the Oaks Multi Unit Housing	21,070

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

REQUIRED INFORMATION FOR CERTAIN CONTINUING DISCLOSURES

As of and for the Year Ending November 30, 2016

Consumption Data

	<u>Total Gallons Billed (1,000)</u>									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sewer Billed Volume	4,181	3,964	3,877	3,826	3,775	4,192	3,766	3,484	3,467	3,395
Water Billed Consumption	401	368	360	354	351	373	347	340	344	339

Rates

Sewer Service Rates Effective 1/1/14

Sewer Service Charges per 1,000 gallons	\$ 2.57
Sewer Maintenance Charges per 1,000 gallons	\$ 0.95

The calculation of the 2 month sewer bill for a customer using 8,000 gallons of water per month would be as follows:

Base Charge – Billing	\$ 3.94
Base Charge – Meter Reading	1.84
User Charge	41.12
Sewer Maintenance Charge	15.20
NPDES Fee	0.59
Amount billed to a customer connected to a System maintained Sewer (2 month bill)	<u>\$ 62.69</u>

Water Service Rates Effective 1/1/15

Southeast Regional Water Facility (SERWF)
\$9.40 per 1,000 gallons

North Regional Water Facility (NRWF)
\$5.87 per 1,000 gallons

Steeple Run
\$9.40 per 1,000 gallons

Greene Road
\$9.40 per 1,000 gallons

Glen Ellyn Heights
\$9.40 per 1,000 gallons

York Center
\$9.40 per 1,000 gallons

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

FIVE YEAR SUMMARY OF DEBT SERVICE COVERAGE RATIOS For the Year Ended November 30, 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Debt Coverage Ratios Per Section 22 of 2008A/B Bond Ordinance					
Revenues, exclusive of Connection Fees					
Operating Revenue	21,524,777	22,454,253	22,617,682	22,802,761	23,947,678
Investment Income	17,188	14,448	43,201	66,913	56,517
Total Revenues as defined	<u>21,541,965</u>	<u>22,468,701</u>	<u>22,660,883</u>	<u>22,869,674</u>	<u>24,004,195</u>
Current Expenses					
Total Operation and Maintenance Expenses	(17,736,222)	(17,937,274)	(20,491,687)	(20,613,803)	(21,341,781)
Net Revenues	<u>3,805,743</u>	<u>4,531,427</u>	<u>2,169,196</u>	<u>2,255,871</u>	<u>2,662,414</u>
Sec 22(a) - Cover Current Expenses	Met	Met	Met	Met	Met
Sec 22(b) - Net Revenues >120% of Max Annual Debt Service	Met	Met	Met	Met	Met
- Amount of Net Revenues to Meet	<u>1,209,083</u>	<u>1,175,723</u>	<u>1,171,306</u>	<u>1,177,103</u>	<u>1,167,683</u>
Sec 22(c) - Net Revenues > 110% of Max Annual Debt Svc	Met	Met	Met	Met	Met
- Amount of Net Revenues to Meet	<u>1,869,464</u>	<u>1,837,729</u>	<u>1,831,309</u>	<u>1,832,972</u>	<u>1,830,167</u>
Sec 22(d) - Net Revenues 100% all debt	Met	Met	Met	Met	Met
- Amount of Net Revenues to Meet	<u>2,395,664</u>	<u>2,509,226</u>	<u>2,120,073</u>	<u>1,951,162</u>	<u>1,948,612</u>
Debt Coverage Ratios - all Revenue bonds (First/Second Lien)	<u>2.24</u>	<u>2.71</u>	<u>1.30</u>	<u>1.35</u>	<u>1.60</u>
Debt Coverage Ratio - all Debt	<u>1.59</u>	<u>1.81</u>	<u>1.02</u>	<u>1.16</u>	<u>1.37</u>
Standard & Poors Calculation					
Operating Revenues	21,524,777	22,454,253	22,617,682	22,802,761	23,947,678
Operating Expenses	(17,736,222)	(17,937,274)	(20,491,687)	(20,613,803)	(21,341,781)
Connection Charges	142,886	434,650	1,184,357	322,535	968,966
Investment Income	17,188	14,448	43,201	66,913	56,517
Non-Operating Income - Premium and Discount Amortization	(29,327)	(213,774)	15,649	-	15,649
Net Revenue Available for Debt Service	3,919,302	4,752,303	3,369,202	2,578,406	3,647,029
Debt Service					
First Lien - 2008A and 2012	1,007,569	979,769	976,088	980,919	973,069
Second Lien - 2008B	691,944	690,894	688,738	685,419	690,719
Subordinated Debt - IEPA	<u>696,151</u>	<u>838,563</u>	<u>455,247</u>	<u>284,824</u>	<u>284,824</u>
Total Debt:	2,395,664	2,509,226	2,120,073	1,951,162	1,948,612
Debt Coverage Levels - S&P All In	1.64	1.89	1.59	1.32	1.87
Other Data					
Unrestricted Cash Reserves	7,833,463	7,923,763	10,206,666	9,070,702	8,755,469
Total Cash Reserves	13,719,254	12,577,870	13,367,249	12,255,699	11,960,200
# Days Operating Reserves	282.33	255.94	238.10	217.01	204.55
Total Metered Sewer Customers	35,465	35,499	35,641	35,289	35,963
Total Metered Water Customers	<u>3,174</u>	<u>3,214</u>	<u>3,273</u>	<u>3,309</u>	<u>3,324</u>
Total Customers:	38,639	38,713	38,914	38,598	39,287
Top 10 Sewer and Water Customers - % of Revenue	9.38%	11.04%	11.27%	11.51%	11.45%
Sewer:					
Total Sewer Revenues	11,373,330	12,182,176	12,165,558	11,511,401	12,194,038
Sewer Capacity					
Knollwood Plant - Influent/Effluent					
Total Average Daily Flow (mgd)	6.9	8.1	8.4	9.5	8.4
Peak Daily Flow Inf./Eff. (mgd)	21.80	22.10	21.30	29.00	28.20
NPDES Permit Expiration Date	4/30/2013	4/30/2013	4/30/2013	4/30/2013	8/31/2020
Woodridge Plant - Influent					
Total Average Daily Flow (mgd)	8.8	10.4	10.5	10.3	10.5
Peak Daily Flow Inf. (mgd)		20.30	20.40	25.90	25.60
NPDES Permit Expiration Date	3/31/2011	3/31/2011	3/31/2011	8/31/2020	8/31/2020
Woodridge Plant - Effluent					
Total Average Daily Flow (mgd)	8.0	10.0	10.3	10.1	10.3
Peak Daily Flow Eff. (mgd)	21.4	19.8	20.1	26.2	25.2
NPDES Permit Expiration Date	3/31/2011	3/31/2011	3/31/2011	8/31/2020	8/31/2020
Water:					
Total Water Revenues	7,886,453	7,986,321	8,984,391	8,749,410	10,225,388
Total Water Capacity MG	10.817	11.018	11.046	10.169	10.488
Total Storage Capacity MG	1.923	1.923	2.875	2.875	2.875
Average Daily Flow MG	1.181	1.134	1.096	1.083	1.078
Peak Day Demand	2.630	2.959	2.441	2.177	2.073
Average Sold	1.039	0.968	0.926	0.932	0.934

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON DEBT COVENANTS COMPLIANCE

To the Honorable Chairman and Members
of the County Board
DuPage County, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Water and Sewerage System of DuPage County, Illinois (System) as of November 30, 2016, and have issued our report thereon dated May 1, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the System was not in compliance with any of the terms, covenants, provisions or conditions of the Revenue Bond Ordinances adopted on August 12, 2003 (amended on July 21, 2008) or adopted on March 13, 2012 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the DuPage County Board, the Public Works Committee, management of the System, System users, and System Revenue Bondholders, and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
May 1, 2017