

Item #13C:
Village Trustee Borys
Downtown Water Rates Analysis - Baker Tilly Proposal



Baker Tilly Virchow Krause, LLP
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September 24, 2015

Mr. David Lothspeich, Village Manager
Village of Long Grove
3110 Old McHenry Road
Long Grove, IL 60047

Dear Mr. Lothspeich:

Thank you for using Baker Tilly Virchow Krause, LLP ("Baker Tilly" "we" or "our") as your advisor. The purpose of this letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

Services and Related Report

Water Rate Financial Forecast and Projection

The following steps were developed for completing the forecast and projection in order to be as efficient as possible, yet allow time for adequate review. These steps include:

1. Obtain historical information, confirm significant assumptions regarding growth and costs, summarize and classify pumping and other maintenance expense for the FY 2016 test year.
2. Gather information from management related to growth, changes in sales volumes, changes in operations, and operational costs.
3. Compile forecast of statements of income, summary of significant assumptions and other related forecast schedules from information supplied by management for the FY 2016 test year to support the rate forecast.
4. Develop proposed rates based upon the forecasted information and management directions and project the following scenarios:

Option 1 – Existing deep well

- a. Existing customers
- b. Existing customers + Habor Chase
- c. Existing customers + Habor Chase + downtown and Acher out lots + triangle properties

Option 2 – Lake Michigan water connection to North West Water Commission

- a. Existing customers
- b. Existing customers + Habor Chase
- c. Existing customers + Habor Chase + downtown and Acher out lots + triangle properties

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5. Provide draft financial forecast and projection to management for their review. Incorporate management's comments into the draft.
6. Review of the final draft and presentation to the board, if requested.

We will compile, from information you provide, schedules and forecast information of the Village of Long Grove Water Utility ("utility") for the year ended April 30, 2016, in order to develop forecasted FY 2016 rate options. We will not audit or review such information. Upon completion of the compilation, we will provide an accountants' compilation report. If, for any reason caused by or relating to the affairs or management of Village of Long Grove, we are unable to complete the compilation, or if we determine in our professional judgment the circumstances necessitate, we may withdraw and decline to submit a report as a result of this engagement.

The forecast is not intended to be a forecast of financial position, changes in net position, or cash flows in accordance with Generally Accepted Accounting Principles. This report will be prepared for the development of rates and should not be used for any other purpose.

A financial forecast presents, to the best of management's knowledge and belief, the expected results of operations and plant balances for the forecasted period. It is based on management's assumptions, reflecting conditions it expects to exist and the course of action it expects to take during the forecasted period. Management is responsible for representations about its plans and expectations and for disclosure of significant information that might affect the ultimate realization of the forecasted results.

There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Our report will contain a statement to that effect.

Our Responsibilities and Limitations

We will be responsible for performing the compilation of in accordance with attestation standards established by the American Institute of Certified Public Accountants. A compilation is limited to presenting, in the form of forecasted schedules information that is the representation of management. We will not examine the financial forecast and therefore, will not express any form of assurance on the achievability of the forecast or reasonableness of the underlying assumptions.

We have no responsibility to update our report for events and circumstances occurring after the date of our report.

In order for us to complete the engagement, management must provide assumptions that are appropriate for the forecast. If the assumptions provided are inappropriate and have not been revised to our satisfaction, we will be unable to complete the engagement, and, accordingly, we will not issue a report on the forecast.

Baker Tilly Virchow Krause, LLP is not a municipal advisor as defined in Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Baker Tilly Virchow Krause, LLP is not recommending an action to the Village of Long Grove; is not acting as an advisor to the Village of Long Grove and does not owe a fiduciary duty pursuant to Section 15B of the Securities and Exchange Act to Village of Long Grove with respect to the information and material contained in the deliverables issued under this engagement. The Village of Long Grove should discuss any information and material contained in the deliverables with any and all internal and external advisors and experts that the Village of Long Grove deems appropriate before acting on this information or material. Baker Tilly Virchow Krause, LLP will rely on management of the Village of Long Grove to provide key data related to the issuance of municipal securities.

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A compilation of a financial forecast differs significantly from a review or an audit of traditional financial statements. A compilation of a financial forecast involves assembling the forecast based on management's assumptions and performing certain other procedures with respect to the forecast without evaluating the support for, or expressing an opinion or any form of assurance on, the assumptions underlying it. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents, or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial forecast being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or other illegal acts that may exist and, because of the limited nature of our work, detection is highly unlikely. However, we will inform the appropriate level of management of any illegal act, material errors, and of any evidence that fraud may have occurred that comes to our attention, unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

This compilation will be prepared for the development of rates for the Village of Long Grove and should not be used for any other purposes.

Management's Responsibilities

The Village of Long Grove management is responsible for the forecasted schedules referred to above. In this regard, management is responsible for (i) the preparation and fair presentation of the forecasted schedules and summaries of significant assumptions and accounting policies, (ii) designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the forecasted schedules, (iii) preventing and detecting fraud, (iv) identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and (v) making all financial records and related information available to us. Management also is responsible for identifying and ensuring that the Village of Long Grove complies with the laws and regulations applicable to its activities.

Management is responsible for providing us with the information necessary for the compilation of the forecasted schedules and the completeness and the accuracy of that information, and for making personnel available to whom we may direct inquiries regarding the compilation. Management is responsible for representations about its plans and expectations and for disclosure of significant information that might affect the ultimate realization of the forecasted results. We may make specific inquiries of management and others about the representations embodied in the financial forecast and will obtain a representation letter covering the financial forecast from certain members of management and will confirm management's responsibility for the underlying assumptions and the appropriateness of the financial forecast and its presentation.

Reproduction of Financial Forecast

If you intend to reproduce or publish the financial forecast, and make reference to our firm name in connection therewith, you agree to publish the financial forecast in its entirety. In addition, you agree to provide us, for our approval and consent, proofs before printing, and final materials before distribution.

With regard to the electronic dissemination of the financial forecast, including forecasted financials published electronically on your internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

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Ownership of Workpapers

The documentation for this engagement, including the workpapers is the property of Baker Tilly Virchow Krause, LLP and constitutes confidential information. We may have a responsibility to retain the documentation for a period of time sufficient to satisfy any applicable legal or regulatory requirements for records retention. If we are required by law, regulation or professional standards to make certain documentation available to Regulators, the company hereby authorizes us to do so.

Timing and Fees

Completion of our work is subject to, among other things, (i) appropriate cooperation from the Village of Long Grove personnel, including timely preparation of necessary schedules, (ii) timely responses to our inquiries, and (iii) timely communication of all significant accounting and financial reporting matters. When and if, for any reason, the Village of Long Grove is unable to provide such schedules, information, and assistance, Baker Tilly and you will mutually revise the fee to reflect additional services, if any, required of us to complete the compilation.

Invoices for our services will be rendered each month as work progresses and are payable upon presentation. A finance charge of 1-1/2% per month shall be imposed on accounts not paid within 30 days of the receipt of our statement for services. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

Our charges for this service will be based on the time of the partners and staff members participating in the engagement at our normally hourly rates in effect at the time services are rendered plus out of pocket expenses. Our estimate fee based on 40 hours is \$10,850.

Partner – \$300 – \$350
Senior Manager – \$215 – \$265
Senior Accountant – \$140 – \$150
Staff Accountant – \$120 – \$130
Administrative Staff – \$105

Terms and Conditions

In our engagement letter with you for auditing services dated March 16, 2015, the Village of Long Grove agreed to the terms and conditions included in the release and indemnification, resolution of disagreements, and other matters sections of that letter. Those terms and conditions are also made part of this contract.

This engagement letter, along with the terms referenced above, reflects the entire agreement between us relating to the services covered by this letter. It replaces and supersedes any previous proposals, correspondence, and understandings, whether written or oral. If any provision of this letter is determined to be unenforceable, all the other provisions shall remain in force. The agreement contained in this engagement letter shall survive the completion or termination of this engagement.

We appreciate the opportunity to be of service to you. If there are any questions, please call Sarah Schleede at 608 240 2310. If the services outlined herein are in accordance with your requirements, and if the above terms are acceptable, please have one copy of this letter signed in the space provided below and return it to us.

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It is a pleasure for us to continue to be of service to you. We look forward to many years of pleasant association with you and the Village of Long Grove.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP

The services and terms as set forth in the Engagement Letter are agreed to by:

Official Signature

Title

Date