



# **Lake County Public Works Department Waterworks and Sewerage Systems Fund**

Annual Financial Report  
November 30, 2019 and 2018

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## Independent Auditor's Report

RSM US LLP

To the Public Works Committee  
Lake County Public Works Department  
Waterworks and Sewerage Systems Fund

### Report on the Financial Statements

We have audited the accompanying financial statements of Lake County Public Works, Waterworks and Sewerage Systems Fund (Public Works), an enterprise fund of Lake County, Illinois, as of November 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Lake County Public Works' basic 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 entity's 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 entity's 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 respective financial position of Public Works, an enterprise fund of Lake County, Illinois, as of November 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **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 basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

### *Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2020, on our consideration of Public Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Public Works' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Works' internal control over financial reporting and compliance.

*RSM US LLP*

Chicago, Illinois  
August 10, 2020

**Management's Discussion and Analysis (MD&A)**

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

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The Management's Discussion and Analysis (MD&A) provides users of the Lake County Public Works' (Public Works) financial statements an analytical overview of Public Works' financial position for the fiscal years ended November 30, 2019 and 2018. The users are encouraged to consider the information presented here in conjunction with additional information furnished in the Lake County Public Works' financial statements.

**Financial Highlights**

Public Works operations provided funds sufficient to meet the required reserve transfers for fiscal year 2019. Total funds transferred in accordance with the bond ordinance during fiscal year 2019 were \$500 thousand.

In 2019, Public Works invested \$7.8 million in property, plant and equipment. The additions were primarily for continuing renovation and improvements of potable water systems, wastewater treatment plants, replacement of water mains, rehabilitation of sanitary sewer lines, lift stations and replacement of vehicles and equipment.

Public Works' \$45.6 million operating revenues represents a \$3.3 million increase when compared to fiscal year 2018 operating revenues of \$42.3 million. The operating expenses excluding depreciation expense increased by \$2.2 million to \$34.5 million for fiscal year 2019.

**Overview of the Financial Statements**

This annual report consists of a series of financial statements. The statements of net position and the statements of revenues, expenses and changes in net position provide information about Public Works' financial performance for the fiscal years ended November 30, 2019 and 2018.

The Public Works is considered an enterprise fund of Lake County, Illinois that provides water and sewerage services to various communities within the County. This business-type activity is intended to recover all or a significant portion of its operating cost and required contribution to reserve accounts through user fees and charges. The Public Works and Transportation Committee of Lake County establishes rates and service rules managed by the Public Works. Accounting records are maintained in accordance with the Governmental Accounting Standards.

The statement of net position includes all of Public Works' assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and the amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of Public Works. The following Table 1 has been condensed for analysis purposes. Please review the financial statements section in order to review details of this statement.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

**Table 1  
Statement of Net Position**

	2019	2018	Amount Change 2019 - 2018	% Change 2019 - 2018
<b>Assets</b>				
Current and other assets	\$ 85,530,641	\$ 80,933,534	\$ 4,597,107	5.7 %
Capital assets	273,402,166	279,925,854	(6,523,688)	(2.3)
Total assets	<u>358,932,807</u>	<u>360,859,388</u>	<u>(1,926,581)</u>	<u>(0.5)</u>
<b>Deferred Outflows of Resources</b>				
Related to pension	4,088,024	1,403,226	2,684,798	191.3
<b>Liabilities</b>				
Debt outstanding	59,631,893	63,881,679	(4,249,786)	(6.7)
Other liabilities	10,035,356	6,886,975	3,148,381	45.7
Total liabilities	<u>69,667,249</u>	<u>70,768,654</u>	<u>(1,101,405)</u>	<u>(1.6)</u>
<b>Deferred Inflows of Resources</b>				
Related to pension and OPEB	872,043	2,665,490	(1,793,447)	(67.3)
Deferred revenue	1,080,124	1,361,863	(281,739)	(20.7)
Total deferred inflows of resources	<u>1,952,167</u>	<u>4,027,353</u>	<u>(2,075,186)</u>	<u>(51.5)</u>
<b>Net Position</b>				
Net position invested	212,691,715	214,217,629	(1,525,914)	(0.7)
Restricted net position	31,849,732	31,345,657	504,075	1.6
Unrestricted net position	46,859,968	41,903,321	4,956,647	11.8
	<u>\$ 291,401,415</u>	<u>\$ 287,466,607</u>	<u>\$ 3,934,808</u>	<u>1.4 %</u>

Public Works' total net position is \$291,401,415 as of November 30, 2019, and it represents the amount of assets exceeding liabilities. The largest portion of the net position total, \$212,691,715 is made up of Public Works' investment in capital assets. This represents the cost of Public Works' capital assets used to provide services to the customer's net of the debt related to these assets. These assets include land, buildings, equipment and water and sewerage systems and they are not available for Public Works' future solvency needs. Restricted net position is \$31,849,732 and represents resources that are subject to bond ordinance covenants as to how they may be spent. Included in this total are assets that are restricted for the future payment of debt and construction projects. Unrestricted net position of \$46,859,968 represents the remaining balance that may be used to pay for Public Works' day-to-day operations.

In 2019, Public Works has invested \$7.8 million in property, plant and equipment, primarily for continuing renovation and improvements of potable water systems, wastewater treatment plants, replacement of water mains, rehabilitation of sanitary sewer lines, lift stations and replacement of vehicles and equipment. The depreciation expense for 2019 increased by \$415 thousand to \$9.45 million, which represents a 4.5 percent increase from \$9.04 million in fiscal year 2018.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

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During the current year, Public Works' long-term capital related debt decreased by \$4.3 million to \$59.6 million compared to \$63.9 million for the prior year. This is the net result of additions related to the Des Plaines Water Reclamation Facility and scheduled debt service payments.

The increase in restricted net position of \$0.5 million is attributable to increases in operating revenues and investment income and a decrease to interest expense.

Unrestricted net position increased by \$5.0 million or 11.8 percent. This increase that occurred in the unrestricted net position during fiscal year 2019 was attributable to increases in investment income, decreases to interest expense and operating revenues increasing a rate greater than operating expenses.

Table 2 summarizes the statement of revenues, expenses and changes in net position. This statement presents information pertaining to Public Works' financial performance during fiscal year 2019 and how this affects Public Works' net position. In addition, it helps the user to predict the future cash flows and the financial health of Public Works.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

**Table 2  
Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	2019	2018	Amount Change 2019 - 2018	% Change 2019 - 2018
Operating revenues:				
Water and sewer charges	\$ 45,155,232	\$ 41,950,253	\$ 3,204,979	7.6 %
Miscellaneous	439,040	320,889	118,151	36.8
Total operating revenues	<u>45,594,272</u>	<u>42,271,142</u>	<u>3,323,130</u>	<u>7.9</u>
Operating expenditures:				
Personnel services	8,298,379	7,889,713	408,666	5.2
Commodities	1,986,848	1,819,698	167,150	9.2
Contractual	24,172,336	22,598,101	1,574,235	7.0
Total expenses	<u>34,457,563</u>	<u>32,307,512</u>	<u>2,150,051</u>	<u>6.7</u>
Operating income before depreciation	11,136,709	9,963,630	1,173,079	11.8
Depreciation expense	<u>9,450,568</u>	<u>9,035,350</u>	<u>415,218</u>	<u>4.6</u>
Operating income	1,686,141	928,280	757,861	81.6
Non-operating income (expense):				
Property tax revenue	178,835	178,974	(139)	(0.1)
Investment income	981,947	331,612	650,335	196.1
Miscellaneous	630,604	653,692	(23,088)	(3.5)
Interest expense	<u>(2,153,826)</u>	<u>(2,930,215)</u>	<u>776,389</u>	<u>(26.5)</u>
Income (loss) before contributions	1,323,701	(837,657)	2,161,358	(258.0)
Capital contributions:				
Connection fees	2,375,976	4,947,299	(2,571,323)	(52.0)
Developer contributions	<u>235,131</u>	<u>2,742,438</u>	<u>(2,507,307)</u>	<u>(91.4)</u>
Change in net position	3,934,808	6,852,080	(2,917,272)	(42.6)
Beginning net position	<u>287,466,607</u>	<u>280,614,527</u>	<u>6,852,080</u>	<u>2.4</u>
Ending net position	<u>\$ 291,401,415</u>	<u>\$ 287,466,607</u>	<u>\$ 3,934,808</u>	<u>1.4 %</u>

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

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Public Works' operating revenues increased by \$3.3 million to \$45.6 million when compared to prior year operating revenues of \$42.3 million. The operating expenses excluding depreciation expense increased by \$2.1 million to \$34.4 million for fiscal year 2019.

Revenues from connection fees totaled \$2.4 million, a decrease from the prior year of \$2.5 million. This decrease was mainly due to completion of both the residential and the commercial developments in fiscal year 2019.

Total operating expenses before depreciation during fiscal year 2019 were \$34.4 million. The total operating expenses represent an increase of \$2.1 million or 6.7 percent from the fiscal year 2018. Interest expense of \$2.2 million decreased by \$777 thousand or 26.5 percent. The net effect of this decrease is attributed to the finalization of the IEPA loan for the Des Plaines River Project during 2018. Accrued construction period interest of \$1,006,684 was paid in 2018 and loan interest of \$356,868 was paid in 2019.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

**Table 3  
Capital Assets**

	2019	2018	Amount Change 2019 - 2018	% Change 2019 - 2018
Capital assets, not depreciated:				
Land	\$ 2,572,013	\$ 2,577,013	\$ (5,000)	(0.2) %
Intangible assets	668,177	668,177	-	-
Construction in progress	42,500,947	46,920,844	(4,419,897)	(9.4)
Total capital assets, not depreciated	<u>45,741,137</u>	<u>50,166,034</u>	<u>(4,424,897)</u>	<u>(8.8)</u>
Capital assets, depreciated:				
Building and other improvements	79,480,342	79,480,342	-	-
Improvements other than buildings				
Water facility	89,420,217	87,929,786	1,490,431	1.7
Sewer facility	211,859,168	208,766,719	3,092,449	1.5
vehicles, machinery and equipment	22,399,789	20,195,411	2,204,378	10.9
Total capital assets being depreciated, net	<u>403,159,516</u>	<u>396,372,258</u>	<u>6,787,258</u>	<u>1.7</u>
Less: accumulated depreciation	<u>175,498,487</u>	<u>166,612,438</u>	<u>8,886,049</u>	<u>5.3</u>
Total capital assets being depreciated, net	<u>227,661,029</u>	<u>229,759,820</u>	<u>(2,098,791)</u>	<u>(0.9)</u>
Net capital assets	<u>\$ 273,402,166</u>	<u>\$ 279,925,854</u>	<u>\$ (6,523,688)</u>	<u>(2.3) %</u>

In 2019, the net capital assets were \$273.4 million. This amount represents a net decrease of \$6.5 million or 2.3 percent, when compared to the prior year. The major factors that contributed to this decrease is \$9.45 million of depreciating capital asset value and the new investment in the capital assets of \$7.8 million for upgrades to the Des Plaines River and Vernon Hills NCT water reclamation facilities, and Public Works Maintenance Building; the replacement and installation of various water mains and sewer lines; and the improvement of lift stations. Additional information on Public Works' capital assets can be found in Note 4 on pages 26-27 of this report.

**Economic Factors**

Public Works' Ten Year Capital Improvements Budget anticipates spending a significant amount of money on plant improvements, interceptor improvements and replacement of infrastructure to meet IEPA's guidelines and mandates for potable water and wastewater facilities. Public Works has plans to fund these projects with a combination of various funding sources, including the use of reserve funds, user fees, surcharges, and by issuing new debt. In 2015 the County Board authorized a three year phased service rate increase, to provide adequate financial resources to successfully fund these projects. The third-year rate increases went into effect on December 1.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Management's Discussion and Analysis  
November 30, 2019 and 2018  
(Unaudited)**

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**Long-Term Debt**

As of November 30, 2019, Public Works has a total revenue bond debt of \$59.6 million including \$35.1 million IEPA Loans. In 2019 Public Works borrowed from the IEPA Clean Water Revolving Fund to fund the construction of Northwest Regional I&I Excess Flow Facility and the renovation of Des Plaines River Water Reclamation Facility. A table of separate bond issues is included in the notes to the financial statements.

**Contacting Public Works Financial Management**

This financial report is designed to provide our customers with a general overview of Public Works' finances. If you have questions about this report, or need additional information, please contact the Manager of Budget and Financial Control, Lake County Public Works, 650 West Winchester Road, Libertyville, Illinois 60048-1391 or by Phone at 847-377-7500.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Net Position  
As of November 30, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Current assets:		
Operation account:		
Cash	\$ 6,414,805	\$ 4,641,426
Investments	35,591,505	32,791,505
Tax receivable	178,845	178,845
Customer accounts receivable, net	8,994,415	8,438,354
Accrued interest receivable	204,548	745,010
Restricted assets:		
Bond interest account		
Cash	16,226	16,226
Investments	400,000	400,000
Bond fund account:		
Cash	38,728	38,728
Investments	1,386,673	1,386,673
Other current assets	1,246,179	1,238,049
<b>Total current assets</b>	<b>54,471,924</b>	<b>49,874,816</b>
Noncurrent assets:		
Restricted assets:		
Bond reserve account:		
Cash	11,203	11,203
Investments	5,271,203	5,271,203
Depreciation, extension and improvement account:		
Cash	16,066	16,066
Investments	24,217,619	24,217,619
Construction account:		
Cash	195,241	195,241
Subordinated ordinance - bond reserve account:		
Cash	281,075	281,075
Third lien - IEPA loan repayment reserve		
Cash	66,310	66,310
Investments	1,000,000	1,000,000
Capital assets:		
Land	2,572,013	2,577,013
Intangible assets	668,177	668,177
Construction in progress	42,500,947	46,920,844
Other capital assets, net of depreciation	227,661,029	229,759,820
<b>Total noncurrent assets</b>	<b>304,460,883</b>	<b>310,984,571</b>
<b>Total assets</b>	<b>358,932,807</b>	<b>360,859,387</b>
Deferred outflows of resources:		
Deferred outflows related to pension	4,068,667	1,403,226
Deferred outflows related to OPEB	19,357	-
<b>Total deferred outflows of resources</b>	<b>4,088,024</b>	<b>1,403,226</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 363,020,831</b>	<b>\$ 362,262,613</b>

(Continued)

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Net Position (Continued)  
As of November 30, 2019 and 2018**

	2019	2018
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 1,854,792	\$ 2,707,804
Accrued salaries and wages	187,556	166,951
Compensated absences	308,883	273,759
Current liabilities payable from restricted assets:		
Current maturities of revenue bonds payable	4,449,094	4,249,786
Depreciation, extension and improvement payables	855,371	1,359,446
<b>Total current liabilities</b>	<b>7,655,696</b>	<b>8,757,746</b>
Noncurrent liabilities:		
Revenue bonds payable	55,182,799	59,631,893
Unamortized bond premium	487,828	731,741
Compensated absences	411,149	518,344
Net pension liability	5,174,240	294,162
Net OPEB liability	755,537	834,767
<b>Total noncurrent liabilities</b>	<b>62,011,553</b>	<b>62,010,907</b>
<b>Total liabilities</b>	<b>69,667,249</b>	<b>70,768,653</b>
Deferred inflows of resources:		
Deferred inflows related to pension	679,986	2,596,032
Deferred inflows related to OPEB	192,057	69,458
Deferred property taxes	1,080,124	1,361,863
<b>Total deferred inflows of resources</b>	<b>1,952,167</b>	<b>4,027,353</b>
Net position:		
Net investment in capital assets	212,691,715	214,217,629
Restricted for debt service	8,471,418	8,471,418
Restricted for depreciation, extension and improvement	23,378,314	22,874,239
Unrestricted	46,859,968	41,903,321
<b>Total net position</b>	<b>291,401,415</b>	<b>287,466,607</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 363,020,831</b>	<b>\$ 362,262,613</b>

See accompany notes to financial statements.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Revenues, Expenses and Changes In Net Position  
For the Years Ended November 30, 2019 and 2018**

	2019	2018
Operating revenues:		
Water and sewer charges	\$ 45,155,232	\$ 41,950,253
Miscellaneous	439,040	320,889
Total operating revenues	<u>45,594,272</u>	<u>42,271,142</u>
Operating expenses:		
Personnel services:		
Salaries and wages	7,236,567	6,803,390
Pension - IMRF and social security	1,061,812	1,086,323
Total personnel services	<u>8,298,379</u>	<u>7,889,713</u>
Commodities:		
Office supplies, printing and postage	33,265	31,272
Housekeeping supplies	20,553	36,691
Gasoline	126,489	139,366
Buildings and ground supplies	50,020	54,032
Operational supplies	831,931	616,833
Chemical supplies	474,551	451,349
Uniforms	42,552	40,217
Laboratory supplies	155,201	169,336
Medical supplies	7,859	7,288
Non capitalized equipment and improvements	244,427	269,810
Miscellaneous	-	3,504
Total commodities	<u>1,986,848</u>	<u>1,819,698</u>
Contractual:		
Insurance:		
Employees' life, health and dental	1,313,282	1,292,036
Unemployment	5,310	5,310
Self insurance - liability and worker's compensation	400,000	400,000
Professional services	687,447	790,878
Miscellaneous benefits	113,039	86,861
Gas (utility)	192,987	192,417
Electricity	1,873,530	1,748,701
Telephone and telemetry	326,271	244,815
Wholesale purchase of water	4,566,482	4,518,998
Wholesale sewage treatment	10,610,523	9,576,007
Vehicle maintenance	101,060	55,887
Buildings and equipment maintenance	947,166	824,239
Equipment rental/real estate lease	190,358	187,085
Disposal service	619,402	582,124
Miscellaneous	2,225,479	2,092,743
Total contractual	<u>24,172,336</u>	<u>22,598,101</u>

(Continued)

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Revenues, Expenses and Changes In Net Position (Continued)  
For the Years Ended November 30, 2019 and 2018**

	2019	2018
Depreciation	<u>\$ 9,450,568</u>	<u>\$ 9,035,350</u>
Total operating expenses	<u>43,908,131</u>	<u>41,342,862</u>
<b>Operating income</b>	<u>1,686,141</u>	<u>928,280</u>
Nonoperating revenues (expenses):		
Property tax revenue	178,835	178,974
Investment income	981,947	331,612
Gain on disposal of capital assets	49,500	72,564
Interest rate subsidy	337,191	337,215
Interest expense	(2,153,826)	(2,930,215)
Amortization of bond premium	243,913	243,913
Total nonoperating expenses	<u>(362,440)</u>	<u>(1,765,937)</u>
<b>Income (loss) before contributions</b>	<u>1,323,701</u>	<u>(837,657)</u>
Contributions:		
Developer contributions	235,131	2,742,438
Connection fees	2,375,976	4,947,299
Total contributions	<u>2,611,107</u>	<u>7,689,737</u>
<b>Change in net position</b>	<u>3,934,808</u>	<u>6,852,080</u>
Net position - beginning	<u>287,466,607</u>	<u>280,614,527</u>
Net position - ending	<u>\$ 291,401,415</u>	<u>\$ 287,466,607</u>

See accompany notes to financial statements.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Cash Flows  
For the Years Ended November 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Received from customers	\$ 45,038,211	\$ 42,462,307
Paid to suppliers for goods and services	(27,524,401)	(28,668,293)
Paid to employees for services	(8,027,242)	(7,664,042)
<b>Net cash provided by operating activities</b>	<b>9,486,568</b>	<b>6,129,972</b>
Cash flows from noncapital financing activities:		
Property tax revenue	(102,904)	1,183,714
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>(102,904)</b>	<b>1,183,714</b>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,926,880)	(10,138,730)
Principal paid on revenue bonds	(4,249,786)	(3,397,278)
Interest paid	(2,153,826)	(2,930,215)
Proceeds from debt issue	-	1,925,817
Gain on disposal of capital assets	49,500	72,564
Capital contributions	235,131	2,742,438
Interest rate subsidy	337,191	337,215
Connection charges	2,375,976	4,947,299
<b>Net cash used in capital and related financing activities</b>	<b>(6,332,694)</b>	<b>(6,440,890)</b>
Cash flows from investing activities:		
Purchase of investments	(54,800,000)	(52,000,000)
Proceeds from sale of investments	52,000,000	42,500,000
Investment income (expense)	1,522,409	(218,250)
<b>Net cash used in investing activities</b>	<b>(1,277,591)</b>	<b>(9,718,250)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,773,379</b>	<b>(8,845,454)</b>
Cash and cash equivalents, beginning of year	5,266,275	14,111,729
Cash and cash equivalents, end of year	<b>\$ 7,039,654</b>	<b>\$ 5,266,275</b>

(Continued)

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Statements of Cash Flows (Continued)  
For the Years Ended November 30, 2019 and 2018**

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,686,141	\$ 928,280
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,450,568	9,035,350
Changes in assets and liabilities:		
Accounts receivable	(556,061)	191,165
Other assets	(8,130)	(125,899)
Accounts payable	(1,357,087)	(4,124,595)
Accrued salaries and wages	20,605	(254,182)
Compensated absences	(72,071)	(76,065)
Deferred amounts related to pension	(4,581,487)	3,502,110
Deferred amounts related to OPEB	103,242	69,458
Net pension liability	4,880,078	(3,005,929)
Net OPEB liability	(79,230)	(9,721)
<b>Net cash provided by operating activities</b>	<b>\$ 9,486,568</b>	<b>\$ 6,129,972</b>
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Operation account	\$ 6,414,805	\$ 4,641,426
Bond interest account	16,226	16,226
Bond fund account	38,728	38,728
Bond reserve account	11,203	11,203
Depreciation, extension and improvement account	16,066	16,066
Construction account	195,241	195,241
Subordinated ordinance - bond reserve account	281,075	281,075
Third lien - IEPA loan repayment reserve	66,310	66,310
<b>Total cash and cash equivalents</b>	<b>\$ 7,039,654</b>	<b>\$ 5,266,275</b>

See accompany notes to financial statements.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The financial statements of Lake County Public Works (Public Works) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government 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 Public Works are described below.

**Reporting entity:** Public Works is a separate enterprise fund of Lake County, IL (County). Public Works is managed by a public works and transportation committee. Public Works provides water and sewerage service to customers and communities within the County.

The water and sewerage utility operate under rules and rates established by the Public Works and Transportation Committee.

**Basis of accounting:** Public Works 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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position:**

*Deposits and Investments*

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the statements of revenues, expenses and changes in net position as increases or decreases in investment income. Market values may have changed significantly after year-end.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Receivables/Payables

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected.

Other Assets

Other assets also include materials and supplies which are generally used for operation and maintenance of the systems, and work performed for contractual customers. The materials and supplies inventory is valued at the average cost method and charged to cost centers when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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.

Capital Assets

Capital assets are generally defined by Public Works as assets with an initial, individual cost of more than \$5,000 for moveable property, \$200,000 for infrastructure, and \$75,000 for all other assets, and an estimated useful life in excess of one year.

Capital assets of Public Works are recorded at cost or the estimated acquisition value at the time of contribution to Public Works. Major outlays for utility 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. Capital assets both tangible and intangible used in operations are either depreciated or amortized using the straight-line method over the following useful lives unless they are inexhaustible:

	<u>Years</u>
Building and other improvements	25 - 40
Improvements other than buildings:	
Water facilities	10 - 75
Sewerage facilities	10 - 75
Machinery and equipment	4 - 25

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

*Pensions and Benefits Other than Pension (OPEB)*

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Illinois Municipal Retirement Fund ("IMRF" or the "Fund") and additions to/deductions from IMRF's 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. For purpose of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense benefits payments are recognized when due and payable in accordance with benefit terms.

*Deferred Outflow of Resources*

A deferred outflow of resources represents a consumption of net position that is applicable to future reporting periods. The net difference between projected and actual earnings on pension plan and other postemployment benefit (OPEB) plan investments, changes in proportion and differences between employer contributions and proportionate share of contributions, as well as pension and OPEB payments made subsequent to the pension liability measurement date are reported as deferred outflows of resources. See Note 7 for pension related disclosures and see Note 10 for OPEB-related disclosures.

*Compensated Absences*

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. All vested vacation and sick leave pay is accrued when incurred.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave balances at November 30, 2019 and 2018, are determined on the basis of current salary rates and include salary related payments.

Employees who terminate and are in good standing may receive payment for 50 percent of their accumulated sick leave bank in excess of 30 days to a maximum of 60 days. Reimbursements are paid at the employee's then current pay rate.

Employees are allowed to accumulate up to 330 hours of vacation time unless Committee approval to carry over an additional amount is obtained.

*Long-Term Obligations*

Long-term debt and other obligations are reported as Public Works liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Debt issuance costs are reported as expenses in the period incurred.

*Deferred Inflows of Resources*

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time. See Note 7 for pension related disclosures and see Note 10 for OPEB-related disclosures.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Unavailable Revenues

Deferred inflows of resources consist of prepaid property taxes and taxes levied for fiscal year 2020. At November 30, 2019, the balance of taxes levied for fiscal year 2020 was \$178,845. At November 30, 2018, the balance of taxes levied for fiscal year 2019 was \$178,845.

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 position, 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 assets 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 Public Works' policy to use restricted resources first, then unrestricted resources as they are needed.

**Revenues and expenses:** Public Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Public Works' principal ongoing operations. The principal operating revenues of Public Works are charges to customers for sales and services. At year-end, unbilled revenues are accrued based on estimates of the first billings in the subsequent year. 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 non-operating revenues and expenses.

**Capital contributions:** Cash and capital assets are contributed to Public Works from customers, the County or external parties. The value of property contributed to Public Works is reported as capital contributions on the statements of revenues, expenses and changes in net position.

**Capital contributions – connection fees:** Public Works 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.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**Property taxes:** Property taxes are levied and recorded as revenue as of the second Tuesday in November on property values assessed as of the same date. The tax levy is payable in two equal installments due June 1 and September 1. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

**Pending accounting pronouncements:** The GASB recently issued the following statements:

GASB Statement No. 84, *Fiduciary Activities*, will be effective for Public Works beginning with its year ending November 30, 2021. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, *Leases*, will be effective for Public Works beginning with its year ending November 30, 2022. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowing Placements*, will be effective for Public Works beginning with its year ending November 30, 2020. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period*, will be effective for Public Works' beginning with its year ended November 30, 2022. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statement No. 14 and 61*, will be effective for Public Works beginning with its year ended November 30, 2021. This statement improves financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously were reported inconsistently. In addition, it requires reporting information about component units if the government acquires 100 percent equity interest in the component unit.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for Public Works beginning with its year ending November 30, 2023. This statement establishes a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice. Under Statement 91, a government entity no longer reports a liability for any conduit debt that it has issued; however, the issuer should recognize a liability for any additional commitments or voluntary commitments to support the debt service.

GASB Statement No. 92, *Omnibus 2020*, will be effective for Public Works beginning with its year ending November 30, 2022. This statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will be effective for Public Works beginning with its year ending November 30, 2021. As a result of global reference rate reform, the London Interbank Offered Rate (LIBOR) is expected to cease to exist in its current form at the end of 2021. This statement is to address the accounting and financial reporting implications that result from the replacement of an interbank offered rate. The removal of LIBOR as an appropriate benchmark interest rate will be effective for the Agency beginning with its year ending November 30, 2022.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for Public Works beginning with its year ending November 30, 2024. This statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will be effective for Public Works beginning with its year ending November 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and an corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, will be effective for Public Works beginning with its year ending November 30, 2021. This statement will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB), and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Management of Public Works is still in the process of determining what effect, if any, the above statements will have on the financial statements and related disclosures.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 2. Deposits and Investments**

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 in 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 amounts.

Public Works may also maintain 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 Public Works alone. Please refer to the County's financial statements for categorization of custodial credit risk on all County accounts.

**Deposits:** Custodial credit risk is the risk that in the event of a financial institution failure, Public Works' deposits may not be returned to Public Works.

Public Works maintains certain deposits at the same institutions as the County. The custodial credit risk pertaining specifically to Public Works' resources at these institutions cannot be determined individually for those accounts.

State statutes authorize Public Works to make deposits in interest bearing depository accounts in federally insured and/or state chartered banks, savings and loan associations, and credit unions. As of November 30, 2019, Public Works had deposits, consisting of cash and non-participating certificates of deposits with federally insured financial institutions of \$74,906,654 with bank balances totaling \$74,203,928.

The County's current investment policy addresses custodial credit risk. The County's investment policy states that it will not maintain funds in any financial institution that is not a member of the FDIC or National Credit Union Association Systems (NCUA). Furthermore, the County will not maintain funds in any financial institutions that do not collateralize all funds in excess of the FDIC or NCUA insurance limits. Refer to the County financial statements for additional details. The custodial credit risk pertaining specifically to Public Works' resources at these institutions cannot be determined individually for those accounts.

**Investments:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Public Works will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Public Works maintains certain investments at the same institutions as the County. The custodial credit risk pertaining specifically to Public Works' resources at these institutions cannot be determined individually for those accounts.

The County's investment policy addresses this risk by stating that U.S. Government agency obligations which have a liquid market and determinable market value are acceptable investments.

*Interest rate risk.* As of November 30, 2019 or 2018, Public Works had no investments exposed to interest rate risk.

The County's investment policy addresses this risk by stating that U.S. Government agency obligations which have a liquid market and determinable market value are acceptable investments.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 3. Restricted Assets**

**Series A of 2006, 2010, and 2016**

All revenues of the entire combined system are reserved to meet the requirements of the bond ordinance. The ordinances authorizing the issuance of series revenue bonds require separate accounts to be maintained and designated as follows:

1. Operation account
2. Bond interest account
3. Bond fund account
4. Bond reserve account
5. Depreciation, extension and improvement account
6. Reserve for construction account

Quarterly cash transfers are required on or before the 15th day of each quarter ending February, May, August and November in the following order:

Operation account	An amount sufficient to provide (1) a sum on hand equal to one-fourth of the amount of the operating expenses as stated in the annual budget, and (2) an operating reserve in an amount certified from time to time by the consulting engineer as the reasonable amount necessary for 45 days' cost of operation, maintenance, and ordinary current repairs of the system.
Bond interest account	An amount, together with any other monies then on deposit in the account, sufficient to pay the amount of interest becoming due on the next interest date.
Bond fund account	An amount, together with any other monies then on deposit in the account, sufficient to pay the amount of interest becoming due on the next interest date.
Bond reserve account	Quarterly deposits of \$40,000 until the maximum debt service is reached, or such higher amount as the County Board may designate from time to time.
Depreciation, extension, and improvement account	Quarterly deposits of \$150,000 or such higher amounts as the County Board may designate from time to time.
Reserve for construction account	All monies deposited in a construction account shall be applied to the cost of construction, improvements or additions of the water and sewer systems.

Funds accumulated in the bond fund are comprised of the bond interest account, bond fund account, and bond reserve account and shall be used solely for the purpose of paying the principal, redemption price, and interest on the bonds, and for retiring such bonds prior to maturity.

Funds accumulated in the bond reserve account shall be used to make up any deficiency in the interest account or bond fund account. If, at any time, the amounts held in the bond reserve account exceed the aggregate debt service requirement for the bonds of all series then outstanding, such excess shall be transferred to the surplus account.

Funds accumulated in the surplus account shall be used to make up any deficiency in any reserve account. Any excess funds may be used in accordance with County Board designation.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 3. Restricted Assets (Continued)**

**Water and Sewer System Subordinate Revenue Bonds, Series S-1 and S-2 of 2005 and S of 2009**

The ordinance authorizing the subordinate issue of bonds created separate accounts to be designated as follows:

- Subordinate interest account
- Subordinate bond account
- Subordinate reserve account

Cash transfers shall be made to the subordinate accounts after the required cash transfers to accounts 1 through 6 for the series revenue bonds have been made, in the following order:

Subordinate interest account                      On the 15th day of February, May, August, and November, an amount at least equal to the interest becoming due on the Series S-1, S-2 of 2005 bonds and S of 2009 on the next succeeding interest payment date. All monies in the account shall be used only for the purpose of paying interest on the Series S-1, S-2 of 2005 and S of 2009 bonds.

Subordinate reserve account                      Annual deposits no later than November 25 in an amount sufficient                      to provide for portions of the maximum annual debt service as specified in the ordinance. All funds in the subordinate reserve account shall be retained and used for the following purposes:

1. For the payment of interest on, and principal of, Series S-1, S-2 of 2005 and S of 2009 bonds, whenever there are insufficient funds in the subordinate interest account and in the subordinate bond account for that purpose, or
2. For calling and redeeming Series S-1 and S-2 of 2005 bonds prior to their maturity, or for the purchase thereof on the open market, at not more than par and accrued interest to the date of redemption or purchase.

**Third Lien Revenue Bonds IEPA's Clean Water Revolving Loan Series L17-4964 and L17-5013**

The ordinance authorizing the third lien issue of bonds created separate accounts to be designated as follows:

*Third lien bond and interest account*

After provision has been made for deposits or credits to all funds and accounts as set forth in the prior lien ordinances, monies shall be deposited or credited to the third lien bond and interest account. All monies in the account shall be used only for the purpose of paying interest on and principal of outstanding third lien bonds when due.

*Third lien bond reserve account*

After completion of a final repayment schedule for each series third lien bond, a deposit shall be made to the third lien bond reserve account, and held in cash or investments, within each fiscal year the sum of one-fifth times one-half of maximum annual debt service on such bonds until the credit balance of said account accumulates to one-half said maximum annual debt service on such bonds.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 3. Restricted Assets (Continued)**

**Restricted Net Position**

The following calculation supports the amount of restricted net position:

	<u>2019</u>	<u>2018</u>
Restricted assets:		
Bond interest	\$ 416,226	\$ 416,226
Bond fund	1,425,401	1,425,401
Bond reserves	5,282,406	5,282,406
Third lien - IEPA loan repayment reserve	1,066,310	1,066,310
Depreciation, extension and improvement	24,233,685	24,233,685
Construction	195,241	195,241
Subordinated ordinance	281,075	281,075
Total restricted assets	<u>32,900,344</u>	<u>32,900,344</u>
Less: restricted assets not funded by revenues construction	(195,241)	(195,241)
Current liabilities payable from restricted assets	<u>(855,371)</u>	<u>(1,359,446)</u>
	<u>\$ 31,849,732</u>	<u>\$ 31,345,657</u>

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

**Note 4. Capital Assets**

Capital asset activity for the year ended November 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,577,013	\$ -	\$ 5,000	\$ 2,572,013
Intangible assets	668,177	-	-	668,177
Construction in progress	46,920,844	2,691,747	7,111,644	42,500,947
Total capital assets not being depreciated	<u>50,166,034</u>	<u>2,691,747</u>	<u>7,116,644</u>	<u>45,741,137</u>
Capital assets being depreciated:				
Buildings and other improvements	79,480,342	-	-	79,480,342
Improvements other than buildings:				
Water facilities	87,929,786	2,164,819	674,388	89,420,217
Sewer facilities	208,766,719	3,351,827	259,378	211,859,168
Vehicles, machinery and equipment	20,195,411	2,288,274	83,896	22,399,789
Total capital assets being depreciated	<u>396,372,258</u>	<u>7,804,920</u>	<u>1,017,662</u>	<u>403,159,516</u>
Less: accumulated depreciation for:				
Buildings and other improvements	44,715,714	2,037,282	-	46,752,996
Improvements other than buildings:				
Water facilities	30,371,770	1,399,945	532,579	31,239,136
Sewer facilities	82,079,051	4,672,530	25,217	86,726,364
Vehicles, machinery and equipment	9,445,903	1,340,811	6,723	10,779,991
Total accumulated depreciation	<u>166,612,438</u>	<u>9,450,568</u>	<u>564,519</u>	<u>175,498,487</u>
Total capital assets being depreciated, net	<u>229,759,820</u>	<u>(1,645,648)</u>	<u>453,143</u>	<u>227,661,029</u>
Net capital assets	<u>\$ 279,925,854</u>	<u>\$ 1,046,099</u>	<u>\$ 7,569,787</u>	<u>\$ 273,402,166</u>

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

**Note 4. Capital Assets (Continued)**

Capital asset activity for the year ended November 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 2,577,013	\$ -	\$ -	\$ -	\$ 2,577,013
Intangible assets	668,177	-	-	-	668,177
Construction in progress	45,305,172	7,382,898	5,767,226	-	46,920,844
Total capital assets not being depreciated	48,550,362	7,382,898	5,767,226	-	50,166,034
Capital assets being depreciated:					
Buildings and other improvements	78,159,807	-	-	1,320,535	79,480,342
Improvements other than buildings:					
Water facilities	80,213,317	2,205,786	180,809	5,691,492	87,929,786
Sewer facilities	188,749,110	7,967,127	321,397	12,371,879	208,766,719
Vehicles, machinery and equipment	18,123,473	1,405,702	867,773	1,534,009	20,195,411
Completed construction not classified	20,917,915	-	-	(20,917,915)	-
Total capital assets being depreciated	386,163,622	11,578,615	1,369,979	-	396,372,258
Less: accumulated depreciation for:					
Buildings and other improvements	42,627,430	2,052,403	-	35,881	44,715,714
Improvements other than buildings:					
Water facilities	29,313,296	1,239,283	180,809	-	30,371,770
Sewer facilities	73,810,536	4,780,357	(2,719,294)	768,864	82,079,051
Vehicles, machinery and equipment	9,335,503	963,307	852,907	-	9,445,903
Completed construction not classified	804,745	-	-	(804,745)	-
Total accumulated depreciation	155,891,510	9,035,350	(1,685,578)	-	166,612,438
Total capital assets being depreciated, net	230,272,112	2,543,265	3,055,557	-	229,759,820
Net capital assets	\$ 278,822,474	\$ 9,926,163	\$ 8,822,783	\$ -	\$ 279,925,854

During 2018, Public Works transferred assets previously shown as “completed construction not classified” into the appropriate capital asset categories.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

**Note 5. Long-Term Obligations**

**Revenue Bonds Payable**

Bond	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount November 30, 2019
2005 S-1	Connection charges to Central Lake County JAWA	2024	3.75 - 4.50%	\$ 1,000,000	\$ 330,000
2009 S	Hawthorn Woods/Glenshire Water Project	2039	2.70 - 6.60%	1,220,000	965,000
2010 A	Various capital improvement Water/Sewer Projects	2035	2.00 - 5.45%	20,000,000	18,830,000
2016 A	Water and Sewer System revenue refunding bonds	2021	3.00 - 5.00%	10,025,000	4,340,000
IEPA L17-4964	Northwest Regional I&I Excess Flow Facility Construction	2029	1.995%	6,197,681	5,134,335
IEPA L17-5013	Des Plain River WRF Renovation Project	2037	2.210%	32,000,000	30,032,558
				<u>\$ 70,442,681</u>	<u>\$ 59,631,893</u>

Outstanding revenue bonds at November 30, 2019, consist of \$23,170,000 of series ordinance revenue bonds due serially December 1, 2019 through 2035, \$1,295,000 of subordinate revenue bonds due serially December 1, 2019 through 2039 and \$35,166,893 of third lien revenue bonds due semi-annually June 14, 2020 through December 14, 2037. Annual interest rates vary between 2.00 percent and 5.45 percent for the series revenue bonds, vary between 2.70 percent and 6.60 percent for the subordinate bonds, and vary between 1.995 percent and 2.21 percent for the third lien revenue bonds.

**IEPA Series Excess Flow Improvements Project Bonds**

On October 14, 2014, the County Board authorized a loan agreement with the Illinois Environmental Protection Agency (IEPA) in the amount of \$6,197,681 for the construction of the Round Lake Sanitary District Excess Flow Improvements Project. IEPA offered to make this loan from the Clean Water Revolving Funds approved for the amount up to and not to exceed \$6,197,681, at an annual fixed loan rate of 1.995 percent, a repayment period of 20 years, and required to make semi-annual repayments. At November 30, 2019, \$5,134,335 is outstanding.

On October 21, 2015, the County Board has authorized a loan agreement with the Illinois Environmental Protection Agency (IEPA) in the amount of \$32,000,000 for the renovation of the Des Plaines River WRF Project. IEPA offered to make this loan from the Clean Water Revolving Funds approved for the amount up to and not to exceed \$32,000,000, at an annual fixed loan rate of 2.210 percent, a repayment period of 20 years, and required to make semi-annual repayments. At November 30, 2019, \$30,032,558 is outstanding.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 5. Long-Term Obligations (Continued)**

Aggregate principal payments applicable to the bonds outstanding are:

Year Ending November 30	Principal	Interest	Total
2020	\$ 4,449,094	\$ 1,976,247	\$ 6,425,341
2021	4,584,256	1,811,573	6,395,829
2022	3,115,289	1,641,082	4,756,371
2023	3,082,212	1,549,167	4,631,379
2024	3,130,046	1,457,886	4,587,932
2025 - 2029	16,125,356	5,862,527	21,987,883
2030 - 2034	16,960,467	3,210,232	20,170,699
2035 - 2039	8,185,173	380,166	8,565,339
	\$ 59,631,893	\$ 17,888,880	\$ 77,520,773

The Series 2010A Various Capital Projects debt was issued under the taxable municipal debt Build America Bond Program (BABs). Public Works' annual interest expense for these bonds is shown gross and will be reduced by a 35 percent federal interest subsidy provided by the federal government. However, as a result of the Sequestration Transparency Act of 2012, the IRS payment for refundable credit payment has been reduced to 32 percent.

The County established Special Service Area No. 9 on November 10, 1994. The Special Service Area will finance a substantial portion of a sewage treatment facility and related system improvements in the area. Allocation of \$21 million in estimated costs was made on the basis of population equivalents. Current plans call for using property taxes generated from the area to cover debt service of future financings. The current resources have come from prepayment of the taxes by certain property holders and from the 2003 tax levy on other properties in the area.

On October 13, 2016, bonds in the amount of \$10,025,000 were issued with an average interest rate of 3 percent to 5 percent to refund \$12,315,000 of outstanding bonds with an average rate of 4 percent. The net proceeds, in addition to a cash transfer, were used to prepay the outstanding debt service requirements on the old bonds.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

**Note 5. Long-Term Obligations (Continued)**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended November 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due One Year
<b>Bonds payable:</b>					
Revenue bonds	\$ 25,515,000	\$ -	\$ 2,345,000	\$ 23,170,000	\$ 2,500,000
Series ordinance	1,385,000	-	90,000	1,295,000	95,000
Subordinated series - Third Lien IEPA	36,981,679	-	1,814,786	35,166,893	1,854,094
Unamortized bond premiums	731,741	-	243,913	487,828	-
Subtotals	64,613,420	-	4,493,699	60,119,721	4,449,094
<b>Other liabilities:</b>					
Compensated absences	792,103	702,419	774,490	720,032	308,883
Net pension liability	294,162	6,335,365	1,455,287	5,174,240	-
OPEB obligation	834,767	93,996	173,226	755,537	-
Subtotals	1,921,032	7,131,780	2,403,003	6,649,809	308,883
Long-term liabilities	\$ 66,534,452	\$ 7,131,780	\$ 6,896,702	\$ 66,769,530	\$ 4,757,977

Long-term liability activity for the year ended November 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due One Year
<b>Bonds payable:</b>					
Revenue bonds	\$ 27,830,000	\$ -	\$ 2,315,000	\$ 25,515,000	\$ 2,345,000
Series ordinance	1,470,000	-	85,000	1,385,000	90,000
Subordinated series - Third Lien IEPA	36,053,140	1,925,817	997,278	36,981,679	1,814,786
Unamortized bond premiums	975,654	-	243,913	731,741	-
Subtotals	66,328,794	1,925,817	3,641,191	64,613,420	4,249,786
<b>Other liabilities:</b>					
Compensated absences	868,168	615,968	692,033	792,103	273,759
Net pension liability	3,300,091	4,186,503	7,192,432	294,162	-
OPEB obligation	844,488	67,087	76,808	834,767	-
Subtotals	5,012,747	4,869,558	7,961,273	1,921,032	273,759
Long-term liabilities	\$ 71,341,541	\$ 6,795,375	\$ 11,602,464	\$ 66,534,452	\$ 4,523,545

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 5. Long-Term Obligations (Continued)**

**Debt Coverage**

Revenue, as defined by the Water and Sewer System Revenue Bond - Basic Ordinance, includes sources of operating and non-operating revenues, tax levy, and interest income. The 2019 and 2018 debt coverage is as follows:

	2019	2018
Operating revenues	\$ 45,594,272	\$ 42,271,142
Connection fees	2,375,976	4,947,299
Non-operating income:		
Investment income	981,947	331,612
Interest rate subsidy	337,191	337,215
Property taxes	178,835	178,974
Revenue as defined by ordinance	49,468,221	48,066,242
Expenses (less depreciation)	(34,457,563)	(32,307,512)
Net revenue available before debt service (as defined in the Series Bond Ordinance)	<u>\$ 15,010,658</u>	<u>\$ 15,758,730</u>
Debt service requirement, current year:		
Serial bond deposits	\$ 2,435,000	\$ 2,400,000
Interest	1,336,594	1,452,174
Total debt service requirements	<u>\$ 3,771,594</u>	<u>\$ 3,852,174</u>
Revenue Bond coverage as calculated	<u>3.98</u>	<u>4.09</u>
Revenue Bond coverage required by Bond ordinance	<u>1.50</u>	<u>1.50</u>

In addition to the above calculation, the bond ordinance covenants state the ratio of net revenue derived from charges for services, excluding connection charges, shall be at all times not less than 1.50 of the principal and interest on all outstanding bonds payable during the year. For fiscal years 2019 and 2018, this ratio was 3.98 and 4.09, respectively. Hence, for fiscal years 2019 and 2018, the coverage was met.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 6. Net Position**

The following calculation supports the net investment in capital assets:

	2019	2018
Land and land improvements	\$ 2,572,013	\$ 2,577,013
Intangible assets	668,177	668,177
Construction in progress	42,500,947	46,920,844
Other capital assets, net of accumulated depreciation/amortization	227,661,029	229,759,820
Less: related long-term debt outstanding	(59,631,893)	(63,881,679)
Less: unamortized debt premium	(487,828)	(731,741)
Less: non-debt capital related liabilities	(785,971)	(1,290,046)
Plus: unspent capital related debt proceeds	195,241	195,241
Total net investment in capital assets	<u>\$ 212,691,715</u>	<u>\$ 214,217,629</u>

**Note 7. Employees' Retirement System**

*Plan Description:* The County's defined benefit pension plan for regular employees provides retirement and disability benefits, post-retirement increases, and death benefits to plan members and beneficiaries. The County's plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of an agent multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this document. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. The report is available for download at [www.imrf.org](http://www.imrf.org).

*Benefits Provided:* The County participates in the Regular Plan (RP) and the Sheriff's Law Enforcement Personnel (SLEP) plan. Employees hired before January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3 percent of the final rate of earnings for the first 15 years of service credit, plus 2 percent for each year of service credit after 15 years to a maximum of 75 percent of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3 percent of the original amount on January 1 every year after retirement.

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3 percent of the final rate of earnings for the first 15 years of service credit, plus 2 percent for each year of service credit after 15 years to a maximum of 75 percent of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3 percent of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 7. Employees' Retirement System (Continued)**

*Plan membership:* Public Works participates in Lake County's RP and SLEP plans. The employees of Public Works are pooled with the employees of Lake County for purposes of actuarial valuation. As Public Works is participating under the County's employer number, IMRF is allocated similar to a cost-sharing plan for the Board.

*Contributions:* As set by statute, County employees participating in IMRF's Regular and SLEP Plans are required to contribute 4.50 percent and 7.50 percent of their annual covered salary, respectively. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of their own employees. The County's Regular Plan annual contribution rates for calendar years 2019 and 2018 were 7.92 percent and 10.08 percent, respectively. The County's SLEP Plan annual contribution rates for calendar years 2019 and 2018 were 22.57 percent and 24.33 percent, respectively. For the fiscal year ended November 30, 2019, the County contributed \$11,259,978 and \$3,882,650 to the Regular and SLEP Plan, respectively. The County 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.

*Net pension liability:* The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Public Works' proportion of the net pension liability was based on the Board's share of contributions to IMRF for the measurement year ended December 31, 2018, relative to the contributions of all of Lake County during that period. At December 31, 2018, Public Works' proportionate share of the plan was 3.58 percent, which increased 0.11 percent when measured as of December 31, 2017. At November 30, 2019, Public Works' proportionate share of the net pension liability was \$5,174,240.

*Actuarial assumptions:* The following are the methods and assumptions used to determine total pension liability at December 31, 2018:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Asset Valuation Method** used was Market Value of Assets.
- The **Inflation Rate** was assumed to be 2.50 percent.
- **Salary Increases** were expected to be 3.39 percent to 14.25 percent, including inflation.
- The **Investment Rate of Return** was assumed to be 7.25 percent.
- **Projected Retirement Age** was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2017 valuation according to an experience study from years 2014 to 2016.
- For **Non-disabled Retirees**, an IMRF specific mortality table was used with fully generational projection scale MP-2017 (base year 2015). 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-2017 (base year 2015). 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-2017 (base year 2015). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 7. Employees' Retirement System (Continued)**

- The **Long-Term Expected Rate of Return** on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2018:

Asset Class	Portfolio Target Percentage	Project Returns / Risk	
		One Year Arithmetic	Ten Year Geometric
Domestic equity	37.0 %	8.50	7.15
International equity	18.0	9.20	7.25
Fixed income	28.0	3.75	3.75
Real estate	9.0	7.30	6.25
Alternative investments	7.0		
Private equity	-	12.40	8.50
Hedge funds	-	5.75	5.50
Commodities	-	4.75	3.20
Cash equivalents	1.0	2.50	2.50
	100.0 %		

Actuarial assumptions change from the prior year. The discount rate change from 7.50 percent to 7.25 percent. There were no benefit changes during the year.

*Discount rate:* A single discount rate of 7.25 percent was used to measure the total pension liability. The projection of cash flow used to determine this single discount rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The single discount rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits).
2. The tax-exempt municipal bond rate based on an index 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.25 percent, the municipal bond rate is 3.71 percent, and the resulting single discount rate is 7.25 percent.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 7. Employees' Retirement System (Continued)**

At November 30, 2019 and 2018, Public Works recognized pension expense of \$115,479 and \$423,287, respectively, and reported net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions as follows:

November 30,	Employer Contributions Fiscal Year	Net Pension Liability	Deferred Outflows	Deferred Inflows
2019	\$ 542,822	\$ 5,174,240	\$ 4,068,667	\$ 679,986
2018	636,369	294,162	1,403,226	2,596,032

Further details regarding the County's entire commitment of the fund can be found in the Lake County, Illinois financial statements.

**Note 8. Commitments and Contingencies**

**Long-Term Contracts – General**

At November 30, 2019, Public Works had commitments under long-term contracts for the following:

On July 15, 2010, Public Works entered into a 20 year contract with the Village of Fox Lake for the treatment and disposal of sanitary and industrial wastes which the County system has collected, received and transported to the Village of Fox Lake treatment plant.

On October 13, 2015, Public Works entered into a 10 year contract renewal by mutual agreement for an additional 10 years with the North Shore Water Reclamation District (NSWRD) effective November 1, 2015. The County will deliver to the NSWRD's Gurnee Plant all waste that the County collects from the County's Northeast Central Service Area. Future permit and connection fees are now the responsibility of the applicant rather than the County. This contract will expire on October 31, 2025, unless extended.

On March 22, 1989, the County entered into a 40 year agreement to become a charter member of the Central Lake County Joint Action Water Agency. The agency agreed to supply water to four County water systems and the County agreed to purchase water exclusively from the agency.

On May 12, 2009, Public Works entered into a 20 year agreement with the Village of Hawthorn Woods and Aqua Illinois, Inc. to provide and deliver potable water to the Hawthorn Woods – Glenshire Subdivision. On June 14, 2011, Public Works entered into a 20 year agreement with the Village of Hawthorn Woods and Aqua Illinois, Inc. to provide and deliver potable water to Public Works' Forest Lake Water System.

**Claims and Judgments**

On October 13, 2015, Public Works entered into a new 10 year contract renewable by mutual agreement for an additional 10 years with the NSWRD effective November 1, 2015. The County will deliver to the NSWRD's Gurnee Plant all waste that the County collects from the County's Northeast Central Service Area. Future permit and connection fees are now the responsibility of the applicant rather than the County. This contract will expire on October 31, 2025, unless extended.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 8. Commitments and Contingencies (Continued)**

Public Works employs 48 members of the International Union of Operating Engineers, Local 150 that are governed by a Collective Bargaining Agreement (CBA). The current CBA is set to expire on November 30, 2020.

**Open Contracts**

Public Works has active construction projects as of November 30, 2019. The projects include construction of additional wastewater treatment facilities, water main replacement, and interceptor sewer relining projects. At year-end, Public Works' commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Project:		
Building and structures	\$ 7,409,491	\$ 2,720,118
Interceptor sewer improvements	63,158	39,050
Wastewater reclamation facilities improvements	36,549,356	2,169,166
Water and sewer main replacement	1,499,398	302,003
	\$ 45,521,403	\$ 5,230,337

**Note 9. Self-Insurance**

Public Works is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. Public Works is self-insured, through Lake County, for all of these risks. These activities are accounted for and financed by the County risk management fund and the health, life, and dental internal service fund. Refer to the County statements for additional details. Public Works makes monthly contributions to the risk fund based on a budgeted member amount.

**Note 10. Other Postemployment Benefits than Pensions (OPEB)**

*Plan Description and Benefits Provided:* The County's group health insurance plan is a single-employer self-insured health care plan administered by the County. The plan provides limited health care coverage at 100 percent of the active premium rate. The State of Illinois requires IMRF employers who offer health insurance to their active employees to offer the same health insurance to disabled members, retirees, and surviving spouses at the same premium rate for active employees. Therefore an implicit rate subsidy exists for retirees (that is, the difference between the premium rate charged to retirees for the benefit and the estimated rate that would be applicable to those retirees if that benefit were acquired for them as a separate group) resulting from the participation in postemployment healthcare plans that cover both active employees and retirees. The plan operates on a pay-as-you-go funding basis. No assets are accumulated or dedicated to funding the retiree health insurance benefits. The plan does not issue a stand-alone financial report.

*Plan Membership:* Public Works participates in Lake County's OPEB plan. The employees of Public Works are pooled with the employees of Lake County for purposes of actuarial valuation.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 10. Other Postemployment Benefits than Pensions (OPEB) (Continued)**

*Net OPEB liability:* The net OPEB liability was measured as of November 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At November 30, 2019, Public Works' proportionate share of the plan was 3.11 percent, which decreased 0.56 percent when measured as of November 30, 2018. At November 30, 2019, Public Works' proportionate share of the net OPEB liability was \$755,537.

*Actuarial Assumptions:* The following are the methods and assumptions used to determine total OPEB liability at November 30, 2019:

- The **Actuarial Cost Method** used was Entry Age Normal.
- **Salary Increases** varies by age or service.
- For **Healthcare Cost Trend Rates**, actual trend rate used for fiscal year 2019. For fiscal years on and after 2020 Non-Medicare Medical and Prescription Drugs trend starts at 7.25 percent and gradually decreases to an ultimate trend of 4.50 percent and Medicare Medical and Prescription Drugs trend starts at 6.50 percent and gradually decreases to an ultimate 4.50 percent.
- For **Retirees**, a mortality table was used with fully generational projection scale MP-2017 (base year 2015). The rates were developed from the RP-2014 Blue Collar Healthy Annuitant Mortality Table with adjustments to match current experience.
- For **Active Members**, a mortality table was used with fully generational projection scale MP-2017 (base year 2015). The rates were developed from the RP-2014 Blue Collar Healthy Annuitant Mortality Table with adjustments to match current experience.

There were no benefit changes during the year. Actuarial assumptions were changed from the prior year. The discount rate was changed from 4.22 percent to 2.77 percent.

*Discount Rate:* Since the plan is financed on a pay-as-you-go basis, a long-term rate of return was not used and the discount rate used to measure the total OPEB liability was the 20-year general obligation bond index rate (source was the S&P Municipal Bond 20-Year High Grade Rate Index as of November 30, 2019). The projection of cash flows used to determine the discount rate assumed that employee and employer contributions would be made at the current rates. Based on those assumptions, the plan's fiduciary net position was not projected to be sufficient to make projected OPEB payments for current active and inactive employees beyond the current year.

At November 30, 2019 and 2018, Public Works recognized OPEB expense of \$60,491 and \$65,030, respectively, and reported net OPEB liability, deferred outflows or resources and deferred inflows of resources related to OPEB as follows:

November 30,	Net Pension Liability	Deferred Outflows	Deferred Inflows
2019	\$ 755,537	\$ 19,357	\$ 192,057
2018	834,767	-	69,458

Further details regarding the County's entire OPEB commitment can be found in the Lake County, Illinois financial statements.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Notes to Financial Statements**

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**Note 11. Subsequent Events**

Public Works evaluated subsequent events through August 10, 2020, for events requiring recording or disclosure in the financial statements.

As a result of the spread of the Coronavirus, economic uncertainties have arisen which are likely to negatively impact Public Works' operations. The financial impact is unknown at this time. The extent of the impact is being monitored by Public Works.

Subsequent to the County's OPEB measurement date of November 30, 2019, the Patient Protection and Affordable Care Act excise tax (Cadillac tax) was repealed. The impact of the repealed tax would reduce the County's the total OPEB liability by approximately \$5,800,000.

## **Supplemental Information**

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Capital Assets  
For the Year Ended November 30, 2019**

	Balances		Balances	
	November 30, 2018	Increases	Decreases	November 30, 2019
Capital assets, not being depreciated:				
Land	\$ 2,577,013	\$ -	\$ 5,000	\$ 2,572,013
Intangible assets	668,177	-	-	668,177
Total capital assets not being depreciated	3,245,190	-	5,000	3,240,190
Buildings and improvements	79,480,342	-	-	79,480,342
Improvements other than buildings:				
Water facilities:				
Transmission and distribution mains	70,036,681	82,230	-	70,118,911
Drinking water reservoir and elevated water tanks	10,948,187	2,010,776	184,968	12,773,995
Land improvements	2,147,847	-	-	2,147,847
Wells	4,797,071	71,813	489,420	4,379,464
Total water facilities	87,929,786	2,164,819	674,388	89,420,217
Sewer facilities:				
Trunk and lateral sewers	90,954,544	385,788	259,378	91,080,954
Lift stations	16,066,315	2,715,995	-	18,782,310
Retention lagoon	7,409,688	-	-	7,409,688
Treatment equipment	49,886,636	250,044	-	50,136,680
Interceptor sewers	44,449,536	-	-	44,449,536
Total sewer facilities	208,766,719	3,351,827	259,378	211,859,168
Total improvements other than buildings	296,696,505	5,516,646	933,766	301,279,385
Machinery and equipment:				
Pumping equipment	5,118,674	80,663	-	5,199,337
Laboratory equipment	606,250	98,463	-	704,713
Trucks and trailers	4,022,470	65,146	14,126	4,073,490
Other	10,448,017	2,044,002	69,770	12,422,249
	20,195,411	2,288,274	83,896	22,399,789
Total plant in service	\$ 399,617,448	\$ 7,804,920	\$ 1,022,662	\$ 406,399,706

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Accumulated Depreciation  
For the Year Ended November 30, 2019**

	Balances		Balances	
	November 30, 2018	Increases	Decreases	November 30, 2019
Land	\$ -	\$ -	\$ -	\$ -
Buildings and improvements	44,715,714	2,037,282	-	46,752,996
Improvements other than buildings:				
Water facilities:				
Transmission and distribution mains	20,278,535	935,534	-	21,214,069
Drinking water reservoir and elevated water tanks	6,550,258	314,402	43,159	6,821,501
Land improvements	105,298	28,055	-	133,353
Wells	3,437,679	121,954	489,420	3,070,213
Total water facilities	30,371,770	1,399,945	532,579	31,239,136
Sewer facilities:				
Truck and lateral sewers	30,930,782	1,356,331	25,217	32,261,896
Lift stations	10,234,803	637,138	-	10,871,941
Retention lagoon	1,694,626	392,143	-	2,086,769
Treatment equipment	24,023,308	1,656,406	-	25,679,714
Interceptor sewers	15,195,532	630,512	-	15,826,044
Total sewer facilities	82,079,051	4,672,530	25,217	86,726,364
Total improvements other than buildings	112,450,821	6,072,475	557,796	117,965,500
Machinery and equipment:				
Pumping equipment	3,579,760	201,163	-	3,780,923
Laboratory equipment	461,711	50,062	-	511,773
Trucks and trailers	1,923,757	399,031	6,723	2,316,065
Other	3,480,675	690,555	-	4,171,230
Total machinery and equipment	9,445,903	1,340,811	6,723	10,779,991
Total plant in service	\$ 166,612,438	\$ 9,450,568	\$ 564,519	\$ 175,498,487

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Series Ordinance System  
Combining Schedule of Cash Receipts and Disbursements  
For the Year Ended November 30, 2019**

	Operation Account	Reserved for Restricted Accounts				Combined Total
		Series Ordinance	Subordinate Ordinance	Third Lien Ordinance	Construction	
Cash balance, November 30, 2018	\$ 4,641,426	\$ 82,223	\$ 281,075	\$ 66,310	\$ 195,241	\$ 5,266,275
Receipts:						
Water and sewer charges	45,594,272	-	-	-	-	45,594,272
Interest income	1,522,410	-	-	-	-	1,522,410
Sale or redemption of investments	24,299,159	27,700,841	-	-	-	52,000,000
Contributions - Special Service Area #9 & 14	-	178,845	-	-	-	178,845
Grants/subsidies	337,191	-	-	-	-	337,191
Other	-	-	-	1,444,206	-	1,444,206
Total receipts	71,753,032	27,879,686	-	1,444,206	-	101,076,924
Disbursements:						
Operating expenses	43,374,180	-	-	-	-	43,374,180
Purchase of investments	27,099,159	27,700,841	-	-	-	54,800,000
Principal due December 1, 2019	-	2,345,000	90,000	972,907	-	3,407,907
Interest	-	1,279,625	78,560	471,299	-	1,829,484
Transfers pursuant to bond ordinances	(493,686)	(6,655,526)	(168,560)	-	-	(7,317,772)
Capital outlay expenditures	-	3,209,746	-	-	-	3,209,746
Total disbursements	69,979,653	27,879,686	-	1,444,206	-	99,303,545
Cash balance, November 30, 2019	\$ 6,414,805	\$ 82,223	\$ 281,075	\$ 66,310	\$ 195,241	\$ 7,039,654

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Series Ordinance System Operation Accounts  
Schedule of Cash Receipts and Disbursements  
For the Year Ended November 30, 2019**

	Operation Accounts		
	Revenue Account	Operation Account	Combined Total
Cash balance, December 1, 2018	\$ -	\$ 4,641,426	\$ 4,641,426
Receipts:			
Water and sewer charges	45,594,272	-	45,594,272
Interest	1,522,410	-	1,522,410
Grants/subsidies	337,191	-	337,191
Sale or redemption of investments	-	24,299,159	24,299,159
Total receipts	47,453,873	24,299,159	71,753,032
Disbursements:			
Operating expenses	-	43,374,180	43,374,180
Purchase of investments	-	27,099,159	27,099,159
Transfers pursuant to bond ordinances	47,453,873	(47,947,559)	(493,686)
Total disbursements	47,453,873	22,525,780	69,979,653
Cash balance, November 30, 2019	\$ -	\$ 6,414,805	\$ 6,414,805

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Series Ordinance System Reserved for Restricted Accounts  
Combining Schedule of Cash Receipts and Disbursements  
For the Year Ended November 30, 2019**

	Reserved for Restricted Accounts										
	Series Ordinance					Subordinate Ordinance					Third Lien Ordinance Interest/Principal Account
	Interest Account	Bond Fund Account	Bond Reserve Account	Depreciation, Extension and Improvement Account	Combined Total	Subordinate Interest Account	Subordinate Bond Account	Subordinate Reserve Account	Combined Total		
Cash balance, December 1, 2018	\$ 16,226	\$ 38,728	\$ 11,203	\$ 16,066	\$ 82,223	\$ -	\$ -	\$ 281,075	\$ 281,075	\$ 66,310	
Receipts:											
Sale or redemption of investments	500,000	2,000,000	6,567,000	18,633,841	27,700,841	-	-	-	-	-	
Contributions - Special Service Area #9 & 14	-	164,920	-	13,925	178,845	-	-	-	-	-	
Transfers pursuant to bond ordinances	1,279,625	2,180,080	-	3,195,821	6,655,526	78,560	90,000	-	168,560	1,444,206	
Total receipts	1,779,625	4,345,000	6,567,000	21,843,587	34,535,212	78,560	90,000	-	168,560	1,444,206	
Disbursements:											
Purchase of investments	500,000	2,000,000	6,567,000	18,633,841	27,700,841	-	-	-	-	-	
Principal due December 1, 2019	-	2,345,000	-	-	2,345,000	-	90,000	-	90,000	972,907	
Interest	1,279,625	-	-	-	1,279,625	78,560	-	-	78,560	471,299	
Capital outlay expenditures	-	-	-	3,209,746	3,209,746	-	-	-	-	-	
Total disbursements	1,779,625	4,345,000	6,567,000	21,843,587	34,535,212	78,560	90,000	-	168,560	1,444,206	
Cash balance, November 30, 2019	\$ 16,226	\$ 38,728	\$ 11,203	\$ 16,066	\$ 82,223	\$ -	\$ -	\$ 281,075	\$ 281,075	\$ 66,310	



**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Revenue Bonds Payable  
For the Year Ended November 30, 2019**

	Interest Rates (Percent)	Amount of Original Issue	Redemptions through November 30, 2019	Bonds Outstanding November 30, 2019
Series 2005S-1	3.75 - 4.50%	\$ 1,000,000	\$ 670,000	\$ 330,000
Series S of 2009	2.70 - 6.60%	1,220,000	255,000	965,000
Series A of 2010	2.00 - 5.45%	20,000,000	1,170,000	18,830,000
2016A Refunding bonds	3.00 - 5.00%	10,025,000	5,685,000	4,340,000
IEPA Third Lien Series L17-4964	1.9950%	6,197,681	1,063,346	5,134,335
IEPA Third Lien Series L17-5013	2.2100%	32,000,000	1,967,442	30,032,558
Total revenue bonds		<u>\$ 70,442,681</u>	<u>\$ 10,810,788</u>	<u>\$ 59,631,893</u>

Note: Interest on all bonds is payable semiannually in June and December except IEPA series include principal also.

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Summary of Revenue and IEPA Bond Debt Service Requirements to Maturity - Principal  
For the Year Ended November 30, 2019**

Year Ending November 30	Series S-1 of 2005	Series S of 2009	Series A of 2010	Series A of 2016	IEPA L17-4964	IEPA L17-5013	Total
2020	\$ 60,000	\$ 35,000	\$ 350,000	\$ 2,150,000	\$ 478,896	\$ 1,375,198	\$ 4,449,094
2021	65,000	35,000	400,000	2,190,000	488,498	1,405,758	4,584,256
2022	65,000	35,000	1,080,000	-	498,292	1,436,997	3,115,289
2023	70,000	35,000	1,000,000	-	508,283	1,468,930	3,082,213
2024	70,000	40,000	1,000,000	-	518,473	1,501,573	3,130,046
2025	-	40,000	1,000,000	-	528,869	1,534,941	3,103,810
2026	-	40,000	1,000,000	-	539,472	1,569,050	3,148,522
2027	-	40,000	1,000,000	-	550,288	1,603,918	3,194,206
2028	-	45,000	1,000,000	-	561,321	1,639,560	3,245,881
2029	-	45,000	1,250,000	-	461,943	1,675,995	3,432,938
2030	-	45,000	1,250,000	-	-	1,713,239	3,008,239
2031	-	50,000	1,250,000	-	-	1,751,311	3,051,311
2032	-	50,000	1,500,000	-	-	1,790,229	3,340,229
2033	-	55,000	1,750,000	-	-	1,830,011	3,635,011
2034	-	55,000	2,000,000	-	-	1,870,678	3,925,678
2035	-	60,000	2,000,000	-	-	1,912,248	3,972,248
2036	-	60,000	-	-	-	1,954,742	2,014,742
2037	-	65,000	-	-	-	1,998,180	2,063,180
2038	-	65,000	-	-	-	-	65,000
2039	-	70,000	-	-	-	-	70,000
	<u>\$ 330,000</u>	<u>\$ 965,000</u>	<u>\$ 18,830,000</u>	<u>\$ 4,340,000</u>	<u>\$ 5,134,335</u>	<u>\$ 30,032,558</u>	<u>\$ 59,631,893</u>

**Lake County Public Works  
Waterworks and Sewerage Systems Fund**

**Summary of Revenue & IEPA Bond Debt Service Requirements to Maturity - Interest  
For the Year Ended November 30, 2019**

Year Ending November 30	Series S-1 of 2005	Series S of 2009	Series A of 2010	Series A of 2016	IEPA L17-4964	IEPA L17-5013	Total
2020	\$ 14,378	\$ 39,078	\$ 949,575	\$ 217,000	\$ 100,053	\$ 656,163	\$ 1,976,247
2021	11,858	37,884	936,275	109,500	90,452	625,604	1,811,573
2022	9,095	36,689	920,275	-	80,658	594,365	1,641,082
2023	6,300	35,393	874,375	-	70,667	562,432	1,549,167
2024	3,150	34,096	830,375	-	60,476	529,789	1,457,886
2025	-	32,614	784,875	-	50,081	496,421	1,363,991
2026	-	31,132	737,875	-	39,478	462,311	1,270,796
2027	-	29,572	689,375	-	28,661	427,444	1,175,052
2028	-	28,012	639,375	-	17,628	391,801	1,076,816
2029	-	26,257	587,875	-	6,375	355,367	975,874
2030	-	24,502	523,500	-	-	318,122	866,124
2031	-	22,601	459,125	-	-	280,051	761,777
2032	-	20,488	392,875	-	-	241,133	654,496
2033	-	18,376	313,375	-	-	201,350	533,101
2034	-	16,052	218,000	-	-	160,684	394,736
2035	-	13,728	109,000	-	-	119,113	241,841
2036	-	11,154	-	-	-	76,619	87,773
2037	-	8,580	-	-	-	33,179	41,759
2038	-	5,786	-	-	-	-	5,786
2039	-	3,003	-	-	-	-	3,003
	<u>\$ 44,781</u>	<u>\$ 474,997</u>	<u>\$ 9,966,125</u>	<u>\$ 326,500</u>	<u>\$ 544,529</u>	<u>\$ 6,531,948</u>	<u>\$ 17,888,880</u>