



Lake County Public Works Department Waterworks and Sewerage Systems Fund

Annual Financial Report
November 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 the financial statements, during the year ended November 30, 2018, Public Works implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions*, which requires a restatement to opening net position. Our opinion is not modified with respect to this matter.

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 GASB 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 June 14, 2019, 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
June 14, 2019

Management's Discussion and Analysis (MD&A)

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

**Management's Discussion and Analysis
November 30, 2018 and 2017
(Unaudited)**

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, 2018 and 2017. 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 2018. Total funds transferred in accordance with the bond ordinance during fiscal year 2018 were \$2 million.

In 2018, Public Works invested \$13.2 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' \$42.27 million operating revenues remained relatively flat compared to \$42.29 million for fiscal year 2017. The operating expenses excluding depreciation expense decreased by \$196,686 to \$32.3 million for fiscal year 2018.

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, 2018 and 2017.

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, 2018 and 2017
(Unaudited)**

**Table 1
Statement of Net Position**

	2018	2017	Amount Change 2018 - 2017	% Change 2018 - 2017
Assets				
Current and other assets	\$ 80,933,534	\$ 79,794,391	\$ 1,139,143	101.4 %
Capital assets	279,925,854	278,822,474	1,103,380	100.4
Total assets	<u>360,859,388</u>	<u>358,616,865</u>	<u>2,242,523</u>	<u>201.8</u>
Deferred Outflows of Resources				
Related to pension	1,403,226	2,798,148	(1,394,922)	50.1
Liabilities				
Debt outstanding	63,881,679	65,353,140	(1,471,461)	97.7
Other liabilities	6,886,975	14,601,379	(7,714,404)	47.2
Total liabilities	<u>70,768,654</u>	<u>79,954,519</u>	<u>(9,185,865)</u>	<u>144.9</u>
Deferred Inflows of Resources				
Related to pension and OPEB	2,665,490	488,844	2,176,646	545.3
Deferred revenue	1,361,863	357,123	1,004,740	381.3
Total deferred inflows of resources	<u>4,027,353</u>	<u>845,967</u>	<u>3,181,386</u>	<u>926.6</u>
Net Position				
Net position invested	214,217,629	210,584,757	3,632,872	101.7
Restricted net position	31,345,657	32,918,939	(1,573,282)	95.2
Unrestricted net position	41,903,321	37,110,831	4,792,490	112.9
	<u>\$ 287,466,607</u>	<u>\$ 280,614,527</u>	<u>\$ 6,852,080</u>	<u>309.9 %</u>

Public Works' total net position is \$287,466,607 as of November 30, 2018, and it represents the amount of assets exceeding liabilities. The largest portion of the net position total, \$214,217,629 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 \$31,345,657 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 \$41,903,321 represents the remaining balance that may be used to pay for Public Works' day-to-day operations.

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

**Management's Discussion and Analysis
November 30, 2018 and 2017
(Unaudited)**

In 2018, Public Works has invested \$13.2 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 2018 of \$9,035,350 is relatively flat compared to \$9,007,145 for fiscal year 2017.

During the current year, Public Works' long-term capital related debt decreased by \$1.5 million to \$63.9 million compared to \$65.4 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 decrease in restricted net position of \$1.6 million is attributable to planned capital expenditures from the Depreciation, Extension and Improvement account and increases for the Bond Reserve account.

Unrestricted net position increased by \$4.8 million or 12.9 percent. This increase that occurred in the unrestricted net position during fiscal year 2018 was attributable to operating income that was generated and connection fees.

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 2018 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, 2018 and 2017
(Unaudited)**

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

	2018	2017	Amount Change 2018 - 2017	% Change 2018 - 2017
Operating revenues:				
Water and sewer charges	\$ 41,950,253	\$ 41,576,594	\$ 373,659	100.9 %
Miscellaneous	320,889	710,047	(389,158)	45.2
Total operating revenues	<u>42,271,142</u>	<u>42,286,641</u>	<u>(15,499)</u>	<u>146.1</u>
Operating expenditures:				
Personnel services	7,889,713	8,189,910	(300,197)	96.3
Commodities	1,819,698	1,854,807	(35,109)	98.1
Contractual	22,598,101	22,459,481	138,620	100.6
Total expenses	<u>32,307,512</u>	<u>32,504,198</u>	<u>(196,686)</u>	<u>295.1</u>
Operating income before depreciation	9,963,630	9,782,443	181,187	(149.0)
Depreciation expense	<u>9,035,350</u>	<u>9,007,145</u>	<u>28,205</u>	<u>100.3</u>
Operating income	928,280	775,298	152,982	(249.3)
Non-operating income (expense):				
Property tax revenue	178,974	377,347	(198,373)	47.4
Investment income	331,612	294,547	37,065	112.6
Miscellaneous	653,692	622,457	31,235	105.0
Interest expense	(2,930,215)	(878,932)	(2,051,283)	333.4
Income (loss) before contributions	(837,657)	1,190,717	(2,028,374)	349.1
Capital contributions:				
Connection fees	4,947,299	6,033,945	(1,086,646)	82.0
Developer contributions	<u>2,742,438</u>	<u>2,903,885</u>	<u>(161,447)</u>	<u>94.4</u>
Change in net position	6,852,080	10,128,547	(3,276,467)	525.6
Beginning net position	<u>280,614,527</u>	<u>270,461,786</u>	<u>10,152,741</u>	<u>103.8</u>
Implementation of GASB 75	<u>-</u>	<u>24,194</u>	<u>(24,194)</u>	<u>-</u>
Total net position, ending	<u>\$ 287,466,607</u>	<u>\$ 280,614,527</u>	<u>\$ 6,852,080</u>	<u>- %</u>

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

**Management's Discussion and Analysis
November 30, 2018 and 2017
(Unaudited)**

Public Works' \$42.27 million operating revenues remained relatively flat compared to \$42.29 million for fiscal year 2017. The operating expenses excluding depreciation expense decreased by \$196,686 to \$32.3 million for fiscal year 2018.

Revenues from connection fees totaled \$4,947,299, a decrease from the prior year of \$1,086,646. This decrease was mainly due to completion of both the residential and the commercial developments in fiscal year 2018.

Total operating expenses before depreciation during fiscal year 2018 were \$32,307,512. The total operating expenses represent a decrease of \$196,686 or 0.6 percent from the fiscal year 2017. Interest expense of \$2,930,215 increased by \$2,051,283 or 233.4 percent. The net effect of this increase is due to interest of \$812,273 being capitalized in fiscal year 2017 for the IEPA loan being drawn upon for the Des Plaines River Project and increases of \$1,006,684 in fiscal year 2018 for the finalized IEPA loan.

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

**Management's Discussion and Analysis
November 30, 2018 and 2017
(Unaudited)**

	2018	2017	Amount Change 2018 - 2017	% Change 2018 - 2017
Capital assets, not depreciated:				
Land	\$ 2,577,013	\$ 2,577,013	\$ -	100.0 %
Intangible assets	668,177	668,177	-	100.0
Construction in progress	46,920,844	45,305,172	1,615,672	103.6
Total capital assets, not depreciated	<u>50,166,034</u>	<u>48,550,362</u>	<u>1,615,672</u>	<u>303.6</u>
Capital assets, depreciated:				
Building and other improvements	79,480,342	78,159,807	1,320,535	101.7
Improvements other than buildings				
Water facility	87,929,786	80,213,317	7,716,469	109.6
Sewer facility	208,766,719	188,749,110	20,017,609	110.6
vehicles, machinery and equipment	20,195,411	18,123,473	2,071,938	111.4
Completed construction not classified	-	20,917,915	(20,917,915)	-
Total capital assets being depreciated, net	<u>396,372,258</u>	<u>386,163,622</u>	<u>10,208,636</u>	<u>433</u>
Less: accumulated depreciation	<u>166,612,438</u>	<u>155,891,510</u>	<u>10,720,928</u>	<u>106.9</u>
Total capital assets being depreciated, net	<u>229,759,820</u>	<u>230,272,112</u>	<u>(512,292)</u>	<u>326.5</u>
Net capital assets	<u>\$ 279,925,854</u>	<u>\$ 278,822,474</u>	<u>\$ 1,103,380</u>	<u>630.0 %</u>

In 2018, the net capital assets were \$280 million. This amount represents a net increase of \$1.1 million or 0.4 percent, over the prior year. The major factors that contributed to this is \$9 million depreciating capital asset value and the new investment in the capital assets of \$13.2 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, 2018 and 2017
(Unaudited)**

Long-Term Debt

As of November 30, 2018, Public Works has a total revenue bond debt of \$63,881,679 including \$36,981,679 IEPA Loans. In 2018 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, 2018 and 2017**

	2018	2017
Assets		
Current assets:		
Operation account:		
Cash	\$ 4,641,426	\$ 13,486,880
Investments	32,791,505	20,904,105
Tax receivable	178,845	178,845
Customer accounts receivable, net	8,438,354	8,629,519
Accrued interest receivable	745,010	195,148
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	1,238,049	1,112,150
Total current assets	49,874,816	46,348,274
Noncurrent assets:		
Restricted assets		
Bond reserve account:		
Cash	11,203	11,203
Investments	5,271,203	3,776,222
Depreciation, extension and improvement account:		
Cash	16,066	16,066
Investments	24,217,619	28,100,000
Construction account:		
Cash	195,241	195,241
Subordinated ordinance - bond reserve account:		
Cash	281,075	281,075
Third lien debt - IEPA loan interest/ principal reserve account:		
Cash	66,310	66,310
Investments	1,000,000	1,000,000
Capital assets:		
Land	2,577,013	2,577,013
Intangible assets	668,177	668,177
Construction in progress	46,920,844	45,305,172
Other capital assets, net of depreciation	229,759,820	230,272,112
Total noncurrent assets	310,984,571	312,268,591
Total assets	360,859,387	358,616,865
Deferred outflows of resources:		
Deferred outflows related to pension	1,403,226	2,798,148
Total deferred outflows of resources	1,403,226	2,798,148
Total assets and deferred outflows of resources	\$ 362,262,613	\$ 361,415,013

(Continued)

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

**Statements of Net Position (Continued)
As of November 30, 2018 and 2017**

	2018	2017
Liabilities		
Current liabilities:		
Accounts payable	\$ 2,707,804	\$ 6,018,281
Accrued salaries and wages	166,951	421,133
Compensated absences	273,759	310,119
Current liabilities payable from restricted assets:		
Current maturities of revenue bonds payable	4,249,786	3,957,825
Depreciation, extension and improvement payables	1,359,446	2,173,564
Total current liabilities	8,757,746	12,880,922
Noncurrent liabilities:		
Revenue bonds payable	59,631,893	61,395,315
Unamortized bond premium	731,741	975,654
Compensated absences	518,344	558,049
Net pension liability	294,162	3,300,091
Net OPEB liability	834,767	844,488
Total noncurrent liabilities	62,010,907	67,073,597
Total liabilities	70,768,653	79,954,519
Deferred inflows of resources:		
Deferred inflows related to pension	2,596,032	488,844
Deferred inflows related to OPEB	69,458	-
Deferred property taxes	1,361,863	357,123
Total deferred inflows of resources	4,027,353	845,967
Net position:		
Net investment in capital assets	214,217,629	210,584,757
Restricted for debt service	8,471,418	6,976,437
Restricted for depreciation, extension and improvement	22,874,239	25,942,502
Unrestricted	41,903,321	37,110,831
Total net position	287,466,607	280,614,527
Total liabilities, deferred inflows of resources, and net position	\$ 362,262,613	\$ 361,415,013

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, 2018 and 2017**

	2018	2017
Operating revenues:		
Water and sewer charges	\$ 41,950,253	\$ 41,576,594
Miscellaneous	320,889	710,047
Total operating revenues	<u>42,271,142</u>	<u>42,286,641</u>
Operating expenses:		
Personnel services		
Salaries and wages	6,803,390	7,064,735
Pension - IMRF and social security	1,086,323	1,125,175
Total personnel services	<u>7,889,713</u>	<u>8,189,910</u>
Commodities:		
Office supplies, printing, and postage	31,272	46,977
Housekeeping supplies	36,691	38,469
Gasoline	139,366	122,007
Buildings and ground supplies	54,032	62,095
Operational supplies	616,833	666,508
Chemical supplies	451,349	401,455
Uniforms	40,217	47,111
Laboratory supplies	169,336	130,142
Medical supplies	7,288	7,964
Non capitalized equipment and improvements	269,810	330,138
Miscellaneous	3,504	1,941
Total commodities	<u>1,819,698</u>	<u>1,854,807</u>
Contractual:		
Insurance:		
Employees' life, health and dental	1,292,036	1,493,143
Unemployment	5,310	5,310
Self insurance - liability and worker's compensation	400,000	400,000
Professional services	790,878	823,964
Miscellaneous benefits	86,861	86,295
Gas (utility)	192,417	153,872
Electricity	1,748,701	1,865,132
Telephone and telemetry	244,815	230,732
Wholesale purchase of water	4,518,998	4,321,815
Wholesale sewage treatment	9,576,007	8,809,762
Vehicle maintenance	55,887	96,485
Buildings and equipment maintenance	824,239	1,136,623
Equipment rental/real estate lease	187,085	187,739
Disposal service	582,124	580,033
Miscellaneous	2,092,743	2,268,576
Total contractual	<u>22,598,101</u>	<u>22,459,481</u>

(Continued)

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

**Statements of Revenues, Expenses and Changes In Net Position
For the Years Ended November 30, 2018 and 2017**

	2018	2017
Depreciation	<u>\$ 9,035,350</u>	<u>\$ 9,007,145</u>
Total operating expenses	<u>41,342,862</u>	<u>41,511,343</u>
Operating income	<u>928,280</u>	<u>775,298</u>
Nonoperating revenues (expenses):		
Property tax revenue	178,974	377,347
Investment income	331,612	294,547
Gain on disposal of capital assets	72,564	22,584
Interest rate subsidy	337,215	342,644
Interest expense	(2,930,215)	(878,932)
Amortization of bond premium	243,913	257,229
Total nonoperating (expenses) revenues	<u>(1,765,937)</u>	<u>415,419</u>
(Loss) income before contributions	<u>(837,657)</u>	<u>1,190,717</u>
Contributions:		
Capital contributions	2,742,438	2,903,885
Capital contributions - connection fees	4,947,299	6,033,945
Total contributions	<u>7,689,737</u>	<u>8,937,830</u>
Change in net position	<u>6,852,080</u>	<u>10,128,547</u>
Net position - beginning	<u>280,614,527</u>	<u>270,461,786</u>
Restatement amount related to the implementation of GASB 75	<u>-</u>	<u>24,194</u>
Net position - ending	<u><u>\$ 287,466,607</u></u>	<u><u>\$ 280,614,527</u></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, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Received from customers	\$ 42,462,307	\$ 40,679,578
Paid to suppliers and employees	(36,332,335)	(31,502,549)
Net cash provided by operating activities	6,129,972	9,177,029
Cash flows from noncapital financing activities:		
Property tax revenue	1,183,714	216,076
Net cash provided by noncapital financing activities	1,183,714	216,076
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(10,138,730)	(18,040,875)
Principal paid on revenue bonds	(3,397,278)	(2,749,943)
Interest paid	(2,930,215)	(1,693,906)
Proceeds from debt issue	1,925,817	13,118,700
Gain on disposal of capital assets	72,564	22,584
Capital contributions	2,742,438	2,903,885
Interest rate subsidy	337,215	342,644
Connection charges	4,947,299	6,033,945
Net cash used in capital and related financing activities	(6,440,890)	(62,966)
Cash flows from investing activities:		
Purchase of investments	(52,000,000)	(50,567,000)
Proceeds from sale of investments	42,500,000	47,067,000
Investment (expense) income	(218,250)	222,966
Net cash used in investing activities	(9,718,250)	(3,277,034)
Net change in cash and cash equivalents	(8,845,454)	6,053,105
Cash and cash equivalents, beginning of year	14,111,729	8,058,624
Cash and cash equivalents, end of year	\$ 5,266,275	\$ 14,111,729
Noncash capital and related financing activities		
Interest charged to construction	\$ -	\$ 523,132

(Continued)

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

**Statements of Cash Flows (Continued)
For the Years Ended November 30, 2018 and 2017**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 928,280	\$ 775,298
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,035,350	9,007,145
Changes in assets and liabilities:		
Accounts receivable	191,165	(1,607,063)
Other assets	(125,899)	(281,448)
Accounts payable	(4,124,595)	589,119
Accrued salaries and wages	(254,182)	76,037
Compensated absences	(76,065)	32,405
Deferred amounts related to pension	3,502,110	1,187,291
Deferred amounts related to OPEB	69,458	-
Net pension liability	(3,005,929)	(638,277)
Net OPEB liability	(9,721)	36,522
Net cash provided by operating activities	\$ 6,129,972	\$ 9,177,029
Reconciliation of cash and cash equivalents to statement of net position accounts:		
Operation account	\$ 4,641,426	\$ 13,486,880
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 ordinance - IEPA loan repayment reserve account	66,310	66,310
Total cash and cash equivalents	\$ 5,266,275	\$ 14,111,729

See accompany notes to financial statements.

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

Notes to Financial Statements

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

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>
Buildings 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

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, 2018 and 2017 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. Deferred inflows relate to the GASB Statement No. 68 pension liability. Details are included in Note 7.

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

Notes to Financial Statements

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 2019. Public Works received property taxes related to Special Service Area No. 9 and No. 16 in advance from the respective property owners. Public Works will amortize the prepaid property taxes on a straight-line basis until 2018. At November 30, 2018 and 2017, the balance of prepaid property taxes was \$0 and \$63,520, respectively. At November 30, 2018, the balance of taxes levied for fiscal year 2019 was \$178,845. At November 30, 2017, the balance of taxes levied for fiscal year 2018 was \$178,845. In addition, as of November 30, 2018 and 2017, Public Works reported \$96,673 and \$114,758, respectively, of unavailable revenue for the Special Service Area No. 16 project.

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

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.

Restatement

Public Works' net position has been restated as of November 30, 2017. The restatement is a result of implementation of GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In accordance with GASB 75, Public Works now reports a net OPEB liability on its financial statements, as well as deferred outflows or resources and deferred inflow of resources. In addition, the impact of implementing this statement resulted in a restatement of the beginning net position to adjust for the OPEB liabilities that would have been reported in previous years. Restatement of the beginning balances for other deferred outflows or resources and deferred inflows of resources related to OPEB was not done because it was not practical to determine all such amounts.

Net position, November 30, 2017	\$ 280,590,333
Restatement amount related to the implementation of GASB 75	<u>24,194</u>
Net position as restated, November 30, 2017	<u><u>\$ 280,614,527</u></u>

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for Public Works beginning with its year ending November 30, 2020. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for Public Works beginning with its year ending November 30, 2020. 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, 2021. 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.

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies(Continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowing Placements*, will be effective for Public Works beginning with its year ended November 30, 2019. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statement related to debt, including direct borrowings 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 the 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 obligations 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, 2021. 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, 2020. 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.

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.

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.

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

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

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, 2018, Public Works had deposits, consisting of cash and non-participating certificates of deposits with federally insured financial institutions of \$70,333,275 with bank balances totaling \$70,121,866.

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, 2018 or 2017, 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.

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

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

Notes to Financial Statements

Note 3. Restricted Assets (Continued)

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

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.

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

Notes to Financial Statements

Note 3. Restricted Assets (Continued)

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.

Restricted Net Position

The following calculation supports the amount of restricted net position:

	2018	2017
Restricted assets:		
Bond interest	\$ 416,226	\$ 416,226
Bond fund	1,425,401	1,425,401
Bond reserves	5,282,406	3,787,425
Third Lien IEPA Loan Repayment reserve	1,066,310	1,066,310
Depreciation, extension, and improvement	24,233,685	28,116,066
Construction	195,241	195,241
Subordinated ordinance	281,075	281,075
Total restricted assets	32,900,344	35,287,744
Less: restricted assets not funded by revenues construction	(195,241)	(195,241)
Current liabilities payable from restricted assets	(1,359,446)	(2,173,564)
	\$ 31,345,657	\$ 32,918,939

**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, 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 4. Capital Assets (Continued)

Capital asset activity for the year ended November 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,577,013	\$ -	\$ -	\$ 2,577,013
Intangible assets	668,177	-	-	668,177
Construction in progress	32,274,212	18,564,007	5,533,047	45,305,172
Total capital assets not being depreciated	<u>35,519,402</u>	<u>18,564,007</u>	<u>5,533,047</u>	<u>48,550,362</u>
Capital assets being depreciated:				
Buildings and other improvements	78,159,807	-	-	78,159,807
Improvements other than buildings:				
Water facilities	80,213,317	-	-	80,213,317
Sewer facilities	192,343,280	-	3,594,170	188,749,110
Vehicles, machinery and equipment	18,123,473	-	-	18,123,473
Completed construction not classified	15,384,868	5,533,047	-	20,917,915
Total capital assets being depreciated	<u>384,224,745</u>	<u>5,533,047</u>	<u>3,594,170</u>	<u>386,163,622</u>
Less: accumulated depreciation for:				
Buildings and other improvements	40,578,913	2,048,517		42,627,430
Improvements other than buildings:				
Water facilities	28,061,632	1,251,664		29,313,296
Sewer facilities	73,305,087	4,099,619	3,594,170	73,810,536
Vehicles, machinery and equipment	8,300,127	1,035,376		9,335,503
Completed construction not classified	232,776	571,969		804,745
Total accumulated depreciation	<u>150,478,535</u>	<u>9,007,145</u>	<u>3,594,170</u>	<u>155,891,510</u>
Total capital assets being depreciated, net	<u>233,746,210</u>	<u>(3,474,098)</u>	<u>-</u>	<u>230,272,112</u>
Net capital assets	<u>\$ 269,265,612</u>	<u>\$ 15,089,909</u>	<u>\$ 5,533,047</u>	<u>\$ 278,822,474</u>

**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 11/30/18
2005 S-1	Connection charges to Central Lake County JAWA	2024	3.75 - 4.50%	\$ 1,000,000	\$ 390,000
2009 S	Hawthorn Woods/Glenshire Water Project	2039	2.70 - 6.60%	1,220,000	995,000
2010 A	Various capital improvement Water/Sewer Projects	2035	2.00 - 5.45%	20,000,000	19,130,000
2016 A	Water and Sewer System revenue refunding bonds	2021	3.00 - 5.00%	10,025,000	6,385,000
IEPA L17-4964	Northwest Regional I&I Excess Flow Facility Construction	2029	1.995%	6,197,681	5,603,818
IEPA L17-5013	Des Plain River WRF Renovation Project	2037	2.210%	32,000,000	31,377,861
				<u>\$ 70,442,681</u>	<u>\$ 63,881,679</u>

Outstanding revenue bonds at November 30, 2018, consist of \$25,515,000 of series ordinance revenue bonds due serially December 1, 2017 through 2035, \$1,385,000 of subordinate revenue bonds due serially December 1, 2017 through 2039 and \$36,981,679 of third lien revenue bonds due semi-annually June 14, 2017 through December 14, 2036. 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 \$6,348,838 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 \$6,348,838, 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, 2018, \$5,603,818 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, 2018, \$31,377,861 is outstanding.

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

Notes to Financial Statements

Note 5. Long-Term Obligations (Continued)

Aggregate principal payments applicable to the bonds outstanding are:

Year Ending November 30	Principal	Interest	Total
2019	\$ 4,249,786	\$ 2,132,233	\$ 6,147,291
2020	4,449,094	1,976,247	6,425,341
2021	4,584,256	1,811,571	6,395,827
2022	3,115,289	1,641,081	4,756,370
2023	3,082,212	1,549,166	4,631,378
2024 - 2028	15,822,465	6,344,540	22,167,005
2029 - 2033	16,467,727	3,791,370	20,259,097
2034 - 2038	12,040,850	771,902	12,812,752
2039	70,000	3,003	73,003
	\$ 63,881,679	\$ 20,021,113	\$ 83,668,064

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, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due One Year
Bonds payable:					
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
Other liabilities:					
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

Long-term liability activity for the year ended November 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due One Year
Bonds payable:					
Revenue bonds	\$ 30,135,000	\$ -	\$ 2,305,000	\$ 27,830,000	\$ 2,315,000
Series ordinance	1,660,000	-	190,000	1,470,000	85,000
Subordinated series - Third Lien IEPA	23,189,383	13,118,700	254,943	36,053,140	1,557,825
Unamortized bond premiums	1,232,883	-	257,229	975,654	-
Subtotals	56,217,266	13,118,700	3,007,172	66,328,794	3,957,825
Other liabilities:					
Compensated absences	835,763	868,168	835,763	868,168	310,119
Interest payable	238,132	-	238,132	-	-
Net pension liability	3,938,368	1,176,534	1,814,811	3,300,091	-
OPEB obligation	832,160	54,140	41,812	844,488	-
Subtotals	5,844,423	2,098,842	2,930,518	5,012,747	310,119
Long-term liabilities	\$ 62,061,689	\$ 15,217,542	\$ 5,937,690	\$ 71,341,541	\$ 4,267,944

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

Notes to Financial Statements

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 2018 and 2017 debt coverage is as follows:

	2018	2017
Operating revenues	\$ 42,271,142	\$ 42,286,641
Connection fees	4,947,299	6,033,945
Non-operating income:		
Investment income	331,612	294,547
Interest rate subsidy	337,215	342,644
Property taxes	178,974	377,347
Revenue as defined by ordinance	48,066,242	49,335,124
Expenses (less depreciation)	(32,307,512)	(32,504,198)
Net revenue available before debt service (as defined in the Series Bond Ordinance)	<u>\$ 15,758,730</u>	<u>\$ 16,830,926</u>
Debt service requirement, current year:		
Serial bond deposits	\$ 2,400,000	\$ 2,495,000
Interest	1,452,174	1,549,988
Total debt service requirements	<u>\$ 3,852,174</u>	<u>\$ 4,044,988</u>
Revenue Bond coverage as calculated	<u>4.09</u>	<u>4.16</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 2018 and 2017, this ratio was 4.09 and 4.16, respectively. Hence, for fiscal years 2018 and 2017, the coverage was met.

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

Notes to Financial Statements

Note 6. Net Position

The following calculation supports the net investment in capital assets:

	2018	2017
Land and land improvements	\$ 2,577,013	\$ 2,577,013
Intangible assets	668,177	668,177
Construction in progress	46,920,844	45,305,172
Other capital assets, net of accumulated depreciation/amortization	229,759,820	230,272,112
Less: related long-term debt outstanding	(63,881,679)	(65,353,140)
Less: unamortized debt premium	(731,741)	(975,654)
Less: non-debt capital related liabilities	(1,290,046)	(2,104,164)
Plus: unspent capital related debt proceeds	195,241	195,241
Total net investment in capital assets	<u>\$ 214,217,629</u>	<u>\$ 210,584,757</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.

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

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 2018 and 2017 were 10.08 percent and 10.43 percent, respectively. The County's SLEP Plan annual contribution rates for calendar years 2018 and 2017 were 24.33 and 24.92 percent and percent, respectively. For the fiscal year ended November 30, 2018, the County contributed \$14,150,591 and \$4,178,426 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, 2017, 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, 2017, relative to the contributions of all of Lake County during that period. At December 31, 2018, Public Works' proportionate share of the plan was 3.50 percent, which increased 0.40 percent when measured as of December 31, 2016. At November 30, 2018, Public Works' proportionate share of the net pension liability was \$294,162.

Actuarial assumptions: The following are the methods and assumptions used to determine total pension liability at December 31, 2017:

- 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 7.50 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

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, 2017:

Asset Class	Portfolio Target Percentage	Project Returns / Risk	
		One Year Arithmetic	Ten Year Geometric
Domestic equity	37.0 %	8.30	6.85
International equity	18.0	8.45	6.75
Fixed income	28.0	3.05	3.00
Real estate	9.0	6.90	5.75
Alternative investments	7.0		
Private equity	-	12.45	7.35
Hedge funds	-	5.35	5.05
Commodities	-	4.25	2.65
Cash equivalents	1.0	2.25	2.25
	<u>100.0 %</u>		

There were no benefit changes during the year.

Discount rate: A single discount rate of 7.50 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 7.50 percent, the municipal bond rate is 3.31 percent, and the resulting single discount rate is 7.50 percent.

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

Notes to Financial Statements

Note 7. Employees' Retirement System (Continued)

At November 30, 2018 and 2017, Public Works recognized pension expense of \$423,287 and \$522,959, 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
2018	\$ 636,369	\$ 294,162	\$ 1,403,226	\$ 2,596,032
2017	644,369	3,300,091	2,798,148	488,844

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, 2018, 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

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). A one year extension to the CBA was granted through November 30, 2017 and representatives are currently in negotiations for a new contract.

Open Contracts

Public Works has active construction projects as of November 30, 2018. 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	\$ 17,354,170	\$ 2,905,509
Interceptor sewer improvements	2,072,299	1,538,665
Wastewater reclamation facilities improvements	38,140,639	12,089,482
Water and sewer main replacement	3,039,669	26,448
	\$ 60,606,777	\$ 16,560,104

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% 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.

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

Notes to Financial Statements

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

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.

Net OPEB liability: The net OPEB liability was measured as of November 30, 2018, 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, 2018, Public Works' proportionate share of the plan was 3.67 percent, which decreased 0.23 percent when measured as of November 30, 2017. At November 30, 2018, Public Works' proportionate share of the net OPEB liability was \$834,767.

Actuarial Assumptions. The following are the methods and assumptions used to determine total OPEB liability at November 30, 2018:

- 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 2018. For fiscal years on and after 2019, Non-Medicare Medical and Prescription Drugs trend starts at 7.50 percent and gradually decreases to an ultimate trend of 4.50 percent and Medicare Medical and Prescription Drugs trend starts at 6.75 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 change from 3.59 percent to 4.22 percent to comply with GASB 75. For Retirees and Active Members, fully generational projection scale was changed from MP-2016 (base year 2014) to MP-2017 (base year 2015).

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, 2018). 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.

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

Notes to Financial Statements

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

At November 30, 2018, Public Works recognized OPEB expense of \$65,030, 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
2018	\$ 834,767	\$ -	\$ 69,458

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

Supplemental Information

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

**Capital Assets
For the Year Ended November 30, 2018**

	Balances				Balances	
	November 30, 2017	Increases	Decreases	Transfers	November 30, 2018	
Capital assets, not being depreciated:						
Land	\$ 2,577,013	\$ -	\$ -	\$ -	\$ 2,577,013	
Intangible assets	668,177	-	-	-	668,177	
Total capital assets not being depreciated	3,245,190	-	-	-	3,245,190	
Buildings and improvements	78,159,807	-	-	1,320,535	79,480,342	
Improvements other than buildings:						
Water Facilities:						
Transmission and distribution mains	63,404,156	2,205,786	180,809	4,607,548	70,036,681	
Drinking water reservoir and elevated water tanks	10,291,704	-	-	656,483	10,948,187	
Land improvements	1,720,386	-	-	427,461	2,147,847	
Wells	4,797,071	-	-	-	4,797,071	
Total Water Facilities	80,213,317	2,205,786	180,809	5,691,492	87,929,786	
Sewer Facilities:						
Trunk and lateral sewers	88,280,118	1,843,327	214,210	1,045,309	90,954,544	
Lift stations	16,066,315	-	-	-	16,066,315	
Retention lagoon	491,780	-	-	6,917,908	7,409,688	
Treatment equipment	41,527,802	4,068,560	22,405	4,312,679	49,886,636	
Interceptor sewers	42,383,095	2,055,240	84,782	95,983	44,449,536	
Total Sewer Facilities	188,749,110	7,967,127	321,397	12,371,879	208,766,719	
Total improvements other than buildings	268,962,427	10,172,913	502,206	18,063,371	296,696,505	
Machinery and equipment:						
Pumping equipment	4,636,288	482,386	-	-	5,118,674	
Laboratory equipment	453,097	130,915	-	22,238	606,250	
Trucks and trailers	3,007,433	609,963	811,893	1,216,967	4,022,470	
Other	10,026,655	182,438	55,880	294,804	10,448,017	
	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 plant in service	\$ 389,408,812	\$ 11,578,615	\$ 1,369,979	\$ -	\$ 399,617,448	

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

**Accumulated Depreciation
For the Year Ended November 30, 2018**

	Balances				Balances	
	November 30, 2017	Increases	Decreases	Transfers	November 30, 2018	
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings and improvements	42,627,430	2,052,403	-	35,881		44,715,714
Improvements other than buildings:						
Water Facilities:						
Transmission and distribution mains	19,269,448	814,377	180,809	375,519		20,278,535
Drinking water reservoir and elevated water tanks	6,347,517	233,606	-	(30,865)		6,550,258
Land improvements	421,896	28,056	-	(344,654)		105,298
Wells	3,274,435	163,244	-	-		3,437,679
Total Water Facilities	29,313,296	1,239,283	180,809	-		30,371,770
Sewer Facilities:						
Truck and lateral sewers	29,854,413	1,319,079	-	(242,710)		30,930,782
Lift stations	9,557,038	581,229	-	96,536		10,234,803
Retention lagoon	415,385	392,143	-	887,098		1,694,626
Treatment equipment	19,226,257	1,738,281	(2,719,294)	339,476		24,023,308
Interceptor sewers	14,757,443	749,625	-	(311,536)		15,195,532
Total Sewer Facilities	73,810,536	4,780,357	(2,719,294)	768,864		82,079,051
Total improvements other than buildings	103,123,832	6,019,640	(2,538,485)	768,864		112,450,821
Machinery and equipment:						
Pumping equipment	3,714,821	144,235	-	(279,296)		3,579,760
Laboratory equipment	451,221	34,360	-	(23,870)		461,711
Trucks and trailers	2,292,857	356,710	852,907	127,097		1,923,757
Other	2,876,604	428,002	-	176,069		3,480,675
Total Machinery and equipment	9,335,503	963,307	852,907	-		9,445,903
Completed construction not classified	804,745	-	-	(804,745)		-
Total plant in service	\$ 155,891,510	\$ 9,035,350	\$ (1,685,578)	\$ -	\$ -	\$ 166,612,438

**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, 2018**

	Operation Account	Reserved for Restricted Accounts			Construction	Combined Total
		Series Ordinance	Subordinate Ordinance	Third Lien Ordinance		
Cash balance, December 1, 2017	\$ 13,486,880	\$ 82,223	\$ 281,075	\$ 66,310	\$ 195,241	\$ 14,111,729
Receipts:						
Water and sewer charges	42,271,142	-	-	-	-	42,271,142
Interest income	(218,250)	-	-	-	-	(218,250)
Sale or redemption of investments	8,723,778	33,776,222	-	-	-	42,500,000
Contributions - Special Service Area #9 & 14	-	178,845	-	-	-	178,845
Grants/subsidies	337,215	-	-	-	-	337,215
Other	-	-	-	1,443,976	-	1,443,976
Total receipts	51,113,885	33,955,067	-	1,443,976	-	86,512,928
Disbursements:						
Operating expenses	38,265,991	-	-	-	-	38,265,991
Purchase of investments	23,601,140	28,398,860	-	-	-	52,000,000
Principal due December 1, 2018	-	2,315,000	85,000	952,321	-	3,352,321
Interest	-	1,391,975	82,317	491,655	-	1,965,947
Transfers pursuant to bond ordinances	(1,907,792)	(2,047,074)	(167,317)	-	-	(4,122,183)
Capital outlay expenditures	-	3,896,306	-	-	-	3,896,306
Total disbursements	59,959,339	33,955,067	-	1,443,976	-	95,358,382
Cash balance, November 30, 2018	\$ 4,641,426	\$ 82,223	\$ 281,075	\$ 66,310	\$ 195,241	\$ 5,266,275

**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, 2018**

	Operation Accounts		
	Revenue Account	Operation Account	Combined Total
Cash balance, December 1, 2017	\$ -	\$ 13,486,880	\$ 13,486,880
Receipts:			
Water and sewer charges	42,271,142	-	42,271,142
Interest	(218,250)	-	(218,250)
Grants/subsidies	337,215	-	337,215
Sale or redemption of investments	-	8,723,778	8,723,778
Total receipts	42,390,107	8,723,778	51,113,885
Disbursements:			
Operating expenses	-	38,265,991	38,265,991
Purchase of investments	-	23,601,140	23,601,140
Transfers pursuant to bond ordinances	42,390,107	(44,297,899)	(1,907,792)
Total disbursements	42,390,107	17,569,232	59,959,339
Cash balance, November 30, 2018	\$ -	\$ 4,641,426	\$ 4,641,426

**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, 2018**

	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, 2017	\$ 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	8,760,000	22,516,222	33,776,222	-	-	-	-	-	
Contributions - Special Service Area #9 & 14	-	164,920	-	13,925	178,845	-	-	-	-	-	
Transfers pursuant to bond ordinances	1,391,975	2,150,080	-	-	3,542,055	82,317	85,000	-	167,317	1,443,976	
Total receipts	1,891,975	4,315,000	8,760,000	22,530,147	37,497,122	82,317	85,000	-	167,317	1,443,976	
Disbursements:											
Purchase of investments	500,000	2,000,000	7,265,019	18,633,841	28,398,860	-	-	-	-	-	
Principal due December 1, 2018	-	2,315,000	1,494,981	-	3,809,981	-	85,000	-	85,000	952,321	
Interest	1,391,975	-	-	-	1,391,975	82,317	-	-	82,317	491,655	
Capital outlay expenditures	-	-	-	3,896,306	3,896,306	-	-	-	-	-	
Total disbursements	1,891,975	4,315,000	8,760,000	22,530,147	37,497,122	82,317	85,000	-	167,317	1,443,976	
Cash balance, November 30, 2018	\$ 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, 2018**

	Interest Rates (Percent)	Amount of Original Issue	Redemptions through November 30, 2018	Bonds Outstanding November 30, 2018
Series 2005S-1	3.75 - 4.50%	\$ 1,000,000	\$ 610,000	\$ 390,000
Series S of 2009	2.70 - 6.60%	1,220,000	225,000	995,000
Series A of 2010	2.00 - 5.45%	20,000,000	870,000	19,130,000
2016A Refunding bonds	3.00 - 5.00%	10,025,000	3,640,000	6,385,000
IEPA Third Lien Series L17-4964	1.9950%	6,197,681	593,863	5,603,818
IEPA Third Lien Series L17-5013	2.2100%	32,000,000	622,139	31,377,861
Total revenue bonds		<u>\$ 70,442,681</u>	<u>\$ 6,561,002</u>	<u>\$ 63,881,679</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 & IEPA Bond Debt Service Requirements to Maturity - Principal
For the Year Ended November 30, 2018**

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
2019	\$ 60,000	\$ 30,000	\$ 300,000	\$ 2,045,000	\$ 469,483	\$ 1,345,303	\$ 4,249,786
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
2040	-	-	-	-	-	-	-
	<u>\$ 390,000</u>	<u>\$ 995,000</u>	<u>\$ 19,130,000</u>	<u>\$ 6,385,000</u>	<u>\$ 5,603,818</u>	<u>\$ 31,377,861</u>	<u>\$ 63,881,679</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, 2018**

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
2019	\$ 16,868	\$ 40,102	\$ 960,375	\$ 319,250	\$ 109,466	\$ 686,172	\$ 2,132,233
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
2040	-	-	-	-	-	-	-
	\$ 61,649	\$ 515,099	\$ 10,926,500	\$ 645,750	\$ 653,995	\$ 7,218,120	\$ 20,021,113