

Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The accrual basis of accounting is utilized by the proprietary and fiduciary funds. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Earned but unbilled services in the enterprise fund are accrued and reported in the financial statements.

The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the public works and health, life, and dental funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deposits and Investments

For purposes of the statement of cash flows, the County considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

The County has adopted an investment policy, which is more restrictive than Illinois State Statutes, authorizes the County to invest in any of the types of accounts or securities listed below:

1. Bonds, notes, certificates of indebtedness, treasury bills, or other securities, which are guaranteed by the full faith and credit of the United States of America.
2. Interest-bearing checking or savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the Federal Deposit Insurance Corporation (FDIC).
3. Forms of security legally issuable by savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the laws of the United States, only in those savings and loan associations insured by the FDIC, and not to exceed the maximum amount insured by the FDIC.
4. Insured dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or any other state or under the laws of the United States, only in those credit unions insured by the National Credit Union Administration (NCUA) and not to exceed the maximum amount insured by the NCUA.
5. Repurchase agreements (Illinois Compiled Statutes Chapter 30-235/2).
6. Illinois Funds (money market fund managed by the Treasurer of the State of Illinois).

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 the methods and inputs outlined in Note 2. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The County's investments that have a maturity date of less than one year from the date of acquisition are reported at amortized cost. The County holds commercial papers which are reported at amortized cost.

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Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Illinois Metropolitan Investment Fund (IMET) is a not-for-profit investment trust formed pursuant to the Illinois Municipal Code and managed by a Board of Trustees elected from the participating members. IMET is not registered with the SEC as an investment company. Investments in IMET are valued at IMET's share price, the price for which the investment could be sold. Investment in IMET's 1-3 year fund may be redeemed with five business days' notice.

The County's investment policy contains the following guidelines for allowable investments.

Custodial Credit Risk: The County will not maintain any funds at a financial institution that is not a member of FDIC or NCUA. In addition, the policy requires the County to maintain funds in financial institutions willing and capable of collateralizing all funds in excess of FDIC and NCUA limits.

Credit Risk: The County will minimize credit risk by limiting the type of securities to U.S. Treasury obligations; U.S. Government agency obligations; money market mutual funds when portfolios consist of U.S. government obligations; deposits or investments defined by the Illinois Banking Act; repurchase agreements according to State Statute Chapter 30 ILCS 235/2; the Illinois funds; interest bearing bonds of any county, township, city, village, town, municipal corporation, or school district; and short term obligations of U.S. corporations with assets exceeding \$500 million in accordance with State Statute Chapter 30 ILCS/235/2a4).

Concentration of Credit Risk: Not addressed in policy.

Interest Rate Risk and Investments Highly Sensitive to Market Changes: The County will structure its investment portfolios so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Foreign Currency Risk: Investments in foreign currency are not allowed.

Receivables

The County collector collects all property taxes on behalf of the taxing bodies in the County. Illinois Compiled Statutes require distributions to be made to all taxing bodies, including the County, within 30 days of collection and the final distribution to be made before January 31 of the following year. The Collector distributes at least bi-weekly in the months following the June and September collection deadline.

The 2017 property tax levy is recorded as revenue in fiscal year 2018. Since the 2018 property tax levy is levied to finance the operations of fiscal year 2019, the 2018 property tax levy is recorded as a receivable and deferred revenue.

Property tax calendar for Lake County, Illinois is as follows:

| | |
|--|----------------------------|
| Lien date | January 1 |
| Levy date | Second Tuesday in November |
| First installment (one-half of the total bill) due | June 1 |
| Second installment (balance of the total bill) due | September 1 |
| Tax sale of delinquent accounts is usually held in | December |

Notes receivable and other accounts receivable have been shown net of an allowance for estimated uncollectible accounts. The County evaluates the collectability of its receivables based on the length of time the receivable is outstanding, payor class, and historical experience. Receivables are charged against the allowance for uncollectible accounts when they are deemed uncollectible.

Lake County, Illinois

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

Restatement

The County's 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, the County now reports a net OPEB liability on its financial statements, as well as deferred outflows of resources and deferred inflow of resources. In addition, the impact of implementing this statement resulted in a restatement of the beginning net position for governmental activities, and business-type activities Public Works fund to adjust for the OPEB liabilities that would have been reported in previous years. Restatement of the beginning balances for other deferred outflows of resources and deferred inflows of resources related to OPEB was not done because it was not practical to determine all such amounts.

| | Governmental Activities | Business-Type Activities/ Public Works Fund |
|--|----------------------------|---|
| Net Position, November 30, 2017 | \$ 870,006,561 | \$ 280,590,333 |
| Restatement amount related to the implementation of GASB 75 | 634,164 | 24,194 |
| Net Position as restated, November 30, 2017 | <u>\$ 870,640,725</u> | <u>\$ 280,614,527</u> |

Note 2. Cash and Investments

Deposits

State statutes authorize the County 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, the County had deposits, consisting of cash and non-participating certificates of deposits with federally insured financial institutions of \$334,352,622 with bank balances totaling \$344,019,154.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County investment policy limits the exposure to custodial credit risk by requiring deposits in excess of FDIC insurable limits to be secured by collateral or private party insurance in the event of default or failure of the financial institution holding the funds. All of the County's bank balances were issued or collateralized at November 30, 2018.

Lake County, Illinois

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Investments

As of November 30, 2018, the County had the following investments:

| Investment Type | Total | Investment Maturity (In Years) | | | |
|---|-----------------------|--------------------------------|----------------------|----------------------|----------------------|
| | | Less Than One Year | One to Five Years | Six to Ten Years | More Than Ten Years |
| U.S. Agency Securities: | | | | | |
| Federal Home Loan Bank (FHLB) | \$ 17,141,929 | \$ 10,139,622 | \$ 6,710,084 | \$ 292,223 | \$ - |
| Federal Home Loan Mortgage Corporation (FHLMC) | 22,009,180 | 7,419,836 | 7,323,997 | 1,447,980 | 5,817,367 |
| Federal Farm Credit Bank (FFCB) | 9,647,826 | 5,993,442 | 2,624,890 | 1,029,494 | - |
| Federal National Mortgage Association (FNMA) | 33,185,502 | 9,562,166 | 2,554,014 | 10,083,983 | 10,985,339 |
| Government National Mortgage Association (GNMA) | 2,194,093 | - | - | - | 2,194,093 |
| U.S. Treasury Securities | 16,401,567 | - | 16,401,567 | - | - |
| Corporate Coupon Securities | 23,464,314 | 23,464,314 | - | - | - |
| Municipal Bonds | 21,994,345 | 8,178,807 | 10,776,331 | 637,715 | 2,401,492 |
| Commercial Papers | 4,977,200 | 4,977,200 | - | - | - |
| Illinois Metropolitan Investment Fund (IMET) | 417,405 | 417,405 | - | - | - |
| | <u>\$ 151,433,361</u> | <u>\$ 70,152,792</u> | <u>\$ 46,390,883</u> | <u>\$ 13,491,395</u> | <u>\$ 21,398,291</u> |

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County's investment policy does not limit the County's investment portfolio to specific maturities.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of November 30, 2018, the FHLB, FHLMC, FFCB, FNMA, and GNMA investments are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Services. All municipal bonds held by the County are rated by at least one of Standard & Poor's or Fitch. Ratings range from AA+ through A+ from Standard and Poor's and Fitch. The corporate coupon securities rates vary from A through BBB by Standard & Poor's and A1 through Baa1 by Moody's Investors Services. The investments in commercial papers are not rated. IMET is rated Aaa/br by Moody's Investors Service.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5 percent of the County's investments are in FHLMC (14.5 percent), FHLB (11.3 percent), FNMA (21.9 percent), and FFCB (6.4 percent).

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

As of November 30, 2018, there were no County investments exposed to custodial credit risk.

The above deposits and investments are presented in the basic financial statements as cash and investments as follows:

| | |
|---|-----------------------|
| Statement of Net Position (GWFS): | |
| Cash and investments | \$ 420,281,944 |
| Restricted assets: | |
| Cash and investments | 32,900,344 |
| Statement of Fiduciary Assets and Liabilities | 32,603,695 |
| | <u>\$ 485,785,983</u> |

Lake County, Illinois

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

Fair Value Measurements

GASB statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation input used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs which include quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or using other inputs such as interest rates and yield curves at commonly quoted intervals, implied volatilities and credit spreads or market-corroborated inputs.
- Level 3 inputs are significant unobservable inputs.

The carrying amount of investment and fair value hierarchy at November 30, 2018, is as follows:

| Investment Measured at Fair Value | Total | Fair Value Measurements Using | | |
|--|-----------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. Agency Securities: | | | | |
| Federal Home Loan Bank (FHLB) | \$ 17,141,929 | \$ - | 17,141,929 | \$ - |
| Federal Home Loan Mortgage Corporation (FHLMC) | 22,009,180 | - | 22,009,180 | - |
| Federal Farm Credit Bank (FFCB) | 9,647,826 | - | 9,647,826 | - |
| Federal National Mortgage Association (FNMA) | 33,185,502 | - | 33,185,502 | - |
| Government National Mortgage Association (GNMA) | 2,194,093 | - | 2,194,093 | - |
| U.S. Treasury Securities | 16,401,567 | 16,401,567 | - | - |
| Corporate Coupon Securities | 23,464,314 | 23,464,314 | - | - |
| Municipal Bonds | 21,994,345 | - | 21,994,345 | - |
| | <u>146,038,756</u> | <u>\$ 39,865,881</u> | <u>\$ 106,172,875</u> | <u>\$ -</u> |
| Investments Measured at NAV or Amortized Cost | | | | |
| | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Commercial Papers | 4,977,200 | N/A | Daily | 1 day |
| Illinois Metropolitan Investment Fund (IMET) | 417,405 | N/A | Daily | 5 days |
| Total Investments | <u>\$ 151,433,361</u> | | | |

Lake County, Illinois

Notes to Financial Statements

Note 3. Receivables

All receivables are expected to be collected within one year except for a long-term note receivable reported in the governmental activities and general fund at a net amount of \$1,031,957.

The business-type activities reported an allowance for uncollectible utility billings of \$381,714.

Governmental activities reported the following allowances:

| | | |
|---|----|------------------|
| Health state aid and patient billings | \$ | 739,315 |
| Tuberculosis clinic patient billings | | 2,475 |
| Winchester House state aid and patient billings | | 2,341,566 |
| General fund long-term note receivable | | 900,000 |
| Total allowance for uncollectible accounts | \$ | <u>3,983,356</u> |

Note 4. Restricted Assets

Certain proceeds of the County Public Works' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. All revenues of the entire combined system are reserved to meet the requirements of the bond ordinances. Following is a list of restricted cash and investments:

| | Restricted Cash | Restricted Investments |
|--|--------------------|---------------------------|
| Bond interest | \$ 16,226 | \$ 400,000 |
| Bond fund | 38,728 | 1,386,673 |
| Bond reserves | 11,203 | 5,271,203 |
| Third lien (EPA loan repayment reserve) | 66,310 | 1,000,000 |
| Depreciation, extension, and improvement Construction | 16,066 | 24,217,619 |
| Subordinated ordinance | 195,241 | - |
| | 281,075 | - |
| Total restricted cash and investments | \$ 624,849 | \$ 32,275,495 |

Lake County, Illinois

Notes to Financial Statements

Note 12. Other Financial Disclosures (FFS Level Only) (Continued)

The principal purpose of these interfunds is to fund temporary cash shortfalls and timing of cash transactions between funds. All remaining balances resulted from the time lag between the dates that (1) interfunds goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net position, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

The following is a schedule of interfund transfers:

| Fund Transferred To | Fund Transferred From | Amount |
|-----------------------------|--|----------------------|
| General fund | Nonmajor governmental funds | \$ 20,208,505 |
| Health department | Nonmajor governmental funds | 7,357,915 |
| Nonmajor governmental funds | General fund | 8,140,493 |
| Nonmajor governmental funds | 1/4% sales tax for trans and public safety | 5,290,884 |
| Nonmajor governmental funds | Nonmajor governmental funds | 3,613,487 |
| Total transfers | | <u>\$ 44,611,284</u> |

The principal purpose of these transfers is to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the statement of activities, interfund transfers within the governmental activities or business-type activities are netted and eliminated.

Note 13. Lake County Forest Preserve District - Component Unit

This report contains the Lake County Forest Preserve District (District), which is included as a component unit. Financial information is presented as a discrete column in the statement of net position and statement of activities. Financial information for the District is presented as of their June 30, 2018 year end.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

- a. Basis of accounting/measurement focus

The District's government-wide financial statements follow the full accrual basis of accounting and the flow of economic resources measurement focus.

- b. Deposits and investments

Lake County, Illinois

Notes to Financial Statements

Note 13. Lake County Forest Preserve District - Component Unit (Continued)

As of June 30, 2018, the District's deposits and investments consisted of the following:

| | <u>Carrying Value</u> |
|---------------------------------------|---------------------------|
| Cash on hand | \$ 16,659 |
| Deposits with financial institutions | 19,442,560 |
| Institutional government money market | 23,183,662 |
| Negotiable certificates of deposit | 748,840 |
| Money market mutual funds | 12,455,520 |
| U.S. agency securities | 4,540,563 |
| Municipal bonds | 30,385,806 |
| Preservation foundation | 1,768,734 |
| Total deposits and investments | <u>\$ 92,542,344</u> |

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- Quoted market prices
- Matrix pricing techniques
- Market approach that considers benchmark quoted prices

| | June 30, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|----------------------|---|--|---|
| Investment by fair value | | | | |
| Debt securities: | | | | |
| U.S. agency securities | \$ 4,540,563 | \$ - | \$ 4,540,563 | \$ - |
| Municipal bonds | 30,385,806 | - | 30,385,806 | - |
| Negotiable certificates of deposit | 748,840 | - | 748,840 | - |
| Money market mutual fund | 12,455,520 | 12,455,520 | - | - |
| Total debt securities | <u>\$ 48,130,729</u> | <u>\$ 12,455,520</u> | <u>\$ 35,675,209</u> | <u>\$ -</u> |
| Investment derivative instruments | | | | |
| Interest rate swap | <u>\$ 1,218,588</u> | <u>\$ -</u> | <u>\$ 1,218,588</u> | <u>\$ -</u> |

Custodial Credit Risk

The District's investment policy states that deposits and investments should have a collateralization ratio of 110 percent.

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to the District. The District does not have any deposits exposed to custodial credit risk.

Lake County, Illinois

Notes to Financial Statements

Note 13. Lake County Forest Preserve District - Component Unit (Continued)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper, corporate bonds, and mutual bonds funds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy does not impose further limits on investment choices.

As of June 30, 2018, the District's investments were rated as follows:

| Investment Type | Standard & Poor's | Moody's Investor Service |
|---|-------------------|--------------------------|
| Illinois Metropolitan Investment Funds (1-3 year funds) | AAA | Not rated |
| Federal Agencies | Not rated | Aaa |
| Municipal Bonds | AAA, AA, A | AAA, AA, A |

Concentration of Credit Risk

It is the policy of the District to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in overconcentration in a security, maturity, issuer, or class of securities. As of June 30, 2018, the District owned a State of Florida bond that exceeded 5% of its investment portfolio.

Interest Rate Risk

The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The objective is to maintain a core portfolio with maturities in the one-to-three year range.

As of June 30, 2018, the District had the following investments and maturities:

| Investment Type | Maturity (In Years) | | |
|-------------------------------------|----------------------|----------------------|----------------------|
| | Fair Value | Less Than One Year | 1-5 |
| Negotiable certificates of deposits | \$ 748,840 | \$ 748,840 | \$ - |
| Money market mutual funds | 12,455,520 | 12,454,665 | 855 |
| Municipal bonds | 30,385,806 | 7,170,174 | 23,215,632 |
| U.S. agency securities | 4,540,563 | 1,295,697 | 3,244,866 |
| Totals | <u>\$ 48,130,729</u> | <u>\$ 21,669,376</u> | <u>\$ 26,461,353</u> |