

Management's Discussion and Analysis (Unaudited)

The Lake County (County) management's discussion and analysis provides an overview and analysis of the financial activities for the fiscal year ended November 30, 2018. Because the management's discussion and analysis is designed to focus on the financial performance of fiscal 2018 activities, please read it in conjunction with the transmittal letter and the financial statements that begin on page 1.

Financial Highlights

- Total government assets exceeded liabilities by \$1,188,569,971 including \$836,691,188 net investment in capital assets, \$274,804,160 in restricted net position and \$77,074,623 in unrestricted net position.
- Total fund balance for governmental funds was \$373,098,737 including \$2,321,469 in nonspendable resources, \$243,886,161 in restricted funds, \$70,280,894 in committed funds, \$13,888,545 in funds assigned by the County Board, and \$42,721,668 in unassigned balances.
- The County's enterprise fund had total operating revenue of \$42,271,142 and total operating expenses of \$41,342,862 including \$9,035,350 for depreciation expense. Operating revenues exceeded expenses by \$928,280. Net cash flow from operating activities for the enterprise fund was \$6,129,972.
- The County's governmental activities major tax revenues consisted of \$164,417,596 in property tax distributions and \$64,503,112 in sales tax revenues.

Using This Annual Report

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. There are three parts to the basic financial statements - the government-wide financial statements, the fund financial statements and the notes to the financial statements. In addition to the financial statements, this report also contains other supplementary and statistical information.

Government Wide Financial Statements

The County's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the County's overall financial status. Financial reporting at this level uses a perspective similar to the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements provide information on the County as a whole. The Statement of Net Position reports the assets, deferred outflows, liabilities, and deferred inflows of the County with the difference reported as the net position. This statement combines and consolidates governmental funds' current financial resources (short-term resources) with capital assets and long-term obligations using the accrual basis of accounting and economic resources measurement focus. The statement of activities is focused on both the gross and net cost of various activities (including governmental and business-type) that are supported by the government's general taxes and other resources. An important purpose of the design of the statement of activities is to show the financial reliance of the County's distinct activities or functions on revenues provided by the County's taxpayers. All current year revenue and expenses are included regardless of when cash is received or disbursed.

The statement of net position and the statement of activities divides the County into two kinds of activities:

- **Governmental activities** – Most of the County’s basic services are reported here including administration, the Sheriff’s office and corrections, the Courts and related offices, transportation, planning and economic development, and health services. Property taxes, fees and fines, charges for services, and state and federal revenue sharing and grants support most of these activities.
- **Business-type activities** – The business-type activities of the County include water and sewer services. The County charges fees to customers for these services to cover the costs incurred. Normally enterprise funds do not require taxpayer support outside of the fee for service. The Public Works fund does receive special service area property tax to pay debt for sanitary sewer for the Northeast Facilities Planning Area Old Mill Creek.

The County has one component unit that, according to Generally Accepted Accounting Principles (GAAP), is included in the statement of net position and statement of activities. The Lake County Forest Preserve District (LCFP) is a discretely presented component unit in accordance with GASB Statement Number 61. The LCFP has the same board members as the County; however, there is no financial benefit or burden relationship between LCFP and the County, and the County has no operational responsibility for LCFP.

Fund Financial Statements

The fund financial statements provide reporting in a more detail listing than the government-wide funds. A fund is an accounting method of segregating resources that are designated for a specific purpose. Lake County, like all local governments, uses fund accounting to demonstrate compliance with financial and legal requirements. The County’s funds can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds

Governmental funds are reported in the fund financial statements and essentially account for the same functions reported as governmental activities in the government-wide financial statements. Fund statements provide a distinctive view of the County’s governmental funds. These statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources in the near-term.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may have a better understanding of the long-term impact of near-term financing decisions.

Lake County has 54 individual governmental funds described as follows:

- 13 required for tax levy purposes (including two major funds)
- 21 required by state statute or court order to collect special fees
- Two federal grant programs
- 10 debt service funds
- Three special service areas
- Five capital project funds

Budgetary Comparison

Statements are included in the required supplementary information or supplementary information for the three major funds: the General Fund, Health Department Fund, and ¼% Sales Tax for Transportation and Public Safety. The General Fund is always a major fund. The determination of the other major funds depends on formulas of the percentage of the individual fund in comparison to all the other funds. This formula is recalculated every year. Budget comparisons of the non-major funds are contained in other supplementary information.

Proprietary Funds

Lake County maintains two different types of proprietary funds. The first type, an enterprise fund, is used to report the same function presented as business-type activities in the government-wide financial statements. Lake County has one enterprise fund, the Public Works Fund which records the activity of the Public Works Department which provides water and sewerage services to various communities and unincorporated areas within the County. 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 second type of proprietary fund, an internal service fund, is an accounting device used to accumulate and allocate costs internally among the County's various functions. Lake County has one internal service fund, Health Life and Dental. The activity in the Health Life and Dental Fund has been allocated within the governmental activities in the government-wide financial statements.

Proprietary funds provide a similar type of information consistent with the focus of the government-wide financial statements, only in more detail. In addition to the statement of net position, the proprietary funds include the statement of revenue, expenses and changes in fund net position and the statement of cash flows.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County. The accounting for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to the full understanding of the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's pension obligations and budget comparisons. Other supplementary information includes expense and revenue information and balance sheet detail by fund.

Lake County Financial Analysis

Graphic presentations of selected data from the summary tables follow to assist the analysis of the County's activities.

Net Position (dollars are in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 597,471	\$ 596,977	\$ 80,934	\$ 79,795	\$ 678,405	\$ 676,772
Capital assets, net	810,240	785,553	279,926	278,822	1,090,166	1,064,375
Total assets	1,407,711	1,382,530	360,860	358,617	1,768,571	1,741,147
Deferred outflows	27,386	75,487	1,403	2,798	28,789	78,285
Liabilities						
Current and other liabilities	43,959	52,720	8,758	12,881	52,717	65,601
Non-current liabilities	252,743	357,693	62,011	67,074	314,754	424,767
Total liabilities	296,702	410,413	70,769	79,955	367,471	490,368
Deferred inflows	237,291	176,963	4,027	846	241,318	177,809
Net Position						
Net investment in capital assets	622,474	604,653	214,218	210,585	836,692	815,238
Restricted	243,459	218,993	31,346	32,918	274,805	251,911
Unrestricted	35,171	46,995	41,903	37,111	77,074	84,106
Total net position	\$ 901,104	\$ 870,641	\$ 287,467	\$ 280,614	\$ 1,188,571	\$ 1,151,255

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Lake County's assets exceeded liabilities by \$1,188,569,971 at the end of fiscal 2018. Of this \$836,691,188 is net investment in capital assets. Net investment in capital assets increased by \$21.5 million from 2017 to 2018. In 2018, the County invested \$2.2 million in land and related improvements, \$10.5 million in road and bridges, \$126.8 million in buildings and improvements, \$10.5 million in equipment, \$0.8 million in intangibles, and \$1.4 million in vehicles.

Governmental Activities Net Position

The \$35,171,302 in governmental unrestricted net position can be used to finance day-to-day operations. These are considered the County's reserves, and they decreased by \$11.2 million or 24% as the County spent down reserves on planned capital expenditures. Restricted assets are those funds that can only be used for special purposes, such as funds held to comply with bond ordinances, state statutes and donor requirements. The County's restricted net position in governmental activities was \$243.5 million at year-end, an increase of \$24.5 million compared to 2017, as these special revenue funds set aside reserves for projects in accordance with their special purpose and future long-term needs.

Business-Type Net Position

The business-type net position was \$287,466,607. This includes \$31,345,657 million in restricted net position. This restriction represents resources that are subject to bond ordinance covenants limiting how these funds can be spent or are restricted for the future payment of debt and construction projects. Restricted net position in the business-type activities decreased by \$1.6 million and was the net result of increased debt service reserves and capital expenditures of \$10.1 million. The unrestricted net position totaled \$41,903,321 and can be used to pay for day-to-day operations for business-type activities. Unrestricted net position increased by \$4,816,684 from 2017 to 2018 primarily related to increased water rates and connection fees.

Changes in Net Position

Lake County's combined increase in net position was \$37,314,719. The change in net position for governmental activities was a \$30,462,639 increase and for business-type activities it was a \$6,852,080 increase.

Current Ratio

The Lake County governmental activities maintain a good current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 13.6 to 1. For business-type activities the ratio is 9.2 to 1. As a whole, the County's current ratio is 12.9 to 1. These ratios are favorable when compared to other local governments.

The table below provides the revenue and expenses and resulting change in net position for the governmental activities and the business-type activities.

	Changes in Net Position (dollars are in thousands)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 42,057	\$ 37,477	\$ 42,271	\$ 42,287	\$ 84,328	\$ 79,764
Operating grant and contributio	78,158	78,986	337	343	78,495	79,329
Capital grants and contributions	11,838	10,462	7,690	8,938	19,528	19,400
General revenues:						
Property tax	164,418	159,946	179	377	164,597	160,323
Sales tax	64,503	60,998	-	-	64,503	60,998
Other shared revenue	14,738	14,410	-	-	14,738	14,410
Investment earnings	6,559	6,442	332	295	6,891	6,737
Miscellaneous	9,469	9,185	-	-	9,469	9,185
Gain on sale of assets	-	-	73	21	73	21
Total revenue	391,740	377,906	50,882	52,261	442,622	430,167
Expenses:						
General government	59,584	56,431	-	-	59,584	56,431
Law and judicial	138,826	131,188	-	-	138,826	131,188
Health and human services	87,553	85,633	-	-	87,553	85,633
Transportation	57,644	53,941	-	-	57,644	53,941
Planning and economic develop	10,629	11,441	-	-	10,629	11,441
Interest and fiscal charges	7,041	7,510	-	-	7,041	7,510
Water and sewer	-	-	44,029	42,133	44,029	42,133
Total expenses	361,277	346,144	44,029	42,133	405,306	388,277
Change in net position	30,463	31,762	6,853	10,128	37,316	41,890
Beginning net position	870,641	838,245	280,614	270,462	1,151,255	1,108,707
Implementation of GASB 7 ¹	-	634	-	24	-	658
Ending net position	\$ 901,104	\$ 870,641	\$ 287,467	\$ 280,614	\$ 1,188,571	\$ 1,151,255

Governmental Activities

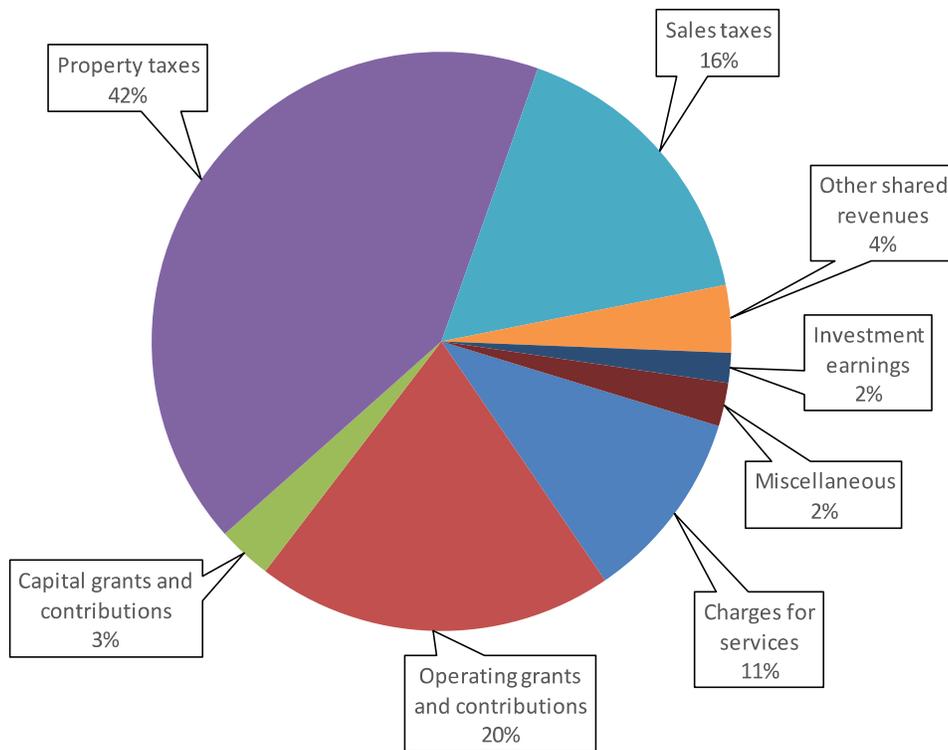
Governmental Revenues

The County had total program revenues of \$132,052,655 and general revenues of \$259,685,955. As graphically portrayed below, the County receives 58% of its income from various tax revenues. Property taxes are considered the most stable tax and account for 42% of all revenues. The County consistently collects over 99% of its extended levy and in 2018 that number was 99.6% (the last ten years of the levy and collections can be found in the Statistical Section). The County's estimated annual valuation (EAV) decreased by 1.06% in 2018. The County's actual 2018 tax rate of .621 per \$100 is a slight decrease over the previous year's rate (the last ten years can be found in the Statistical Section).

As shown in the chart below, property tax is the largest revenue stream in the governmental funds at 42%. Property tax receipts grew by \$4.4 million or 2.8% from 2017 to 2018.

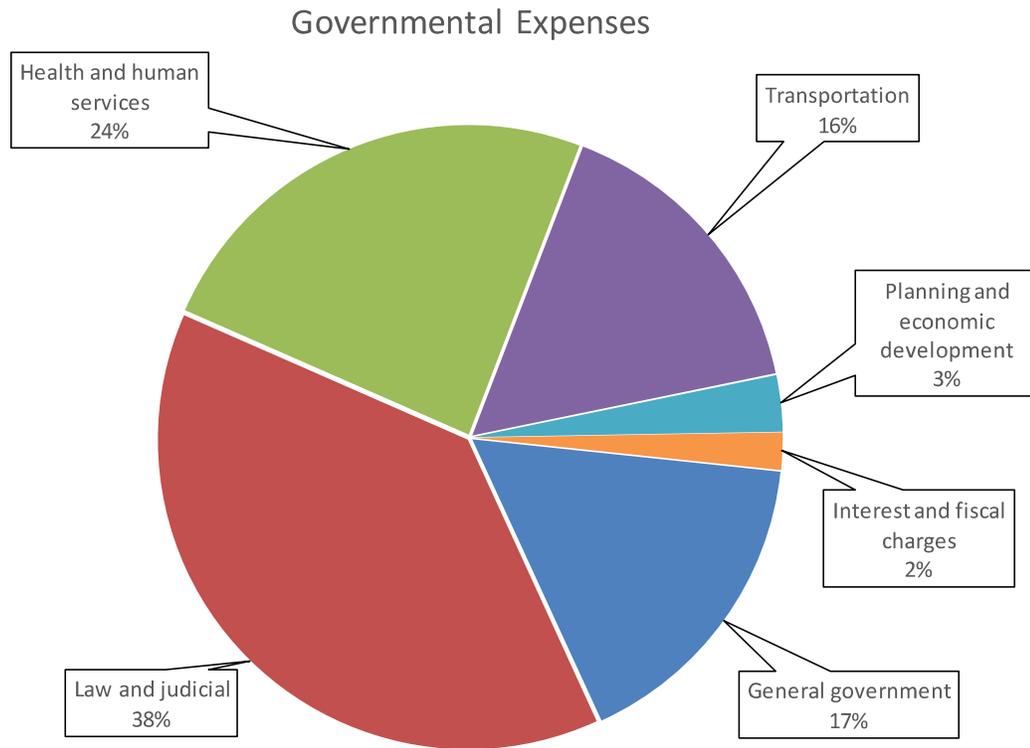
Sales tax makes up 16% of the total governmental revenues. Sales tax increased by \$3.5 million or 6% compared to 2017. Operating Grants make up 20% of total government revenues and decreased by \$828,000 or 1%. Capital grants increased by \$1,375,000 or 13.1% compared to 2017. Investment earnings, which make up 2% of governmental revenues in during 2018, increased \$117,000 or 1.8% compared to 2017.

Governmental Revenues



Governmental Functional Expenses

The County had a total of \$361,275,971 in governmental expenses in fiscal 2018. This is an increase from 2017 of \$15.1 million. General government was up \$3.1 million and Transportation up by \$3.7 million. Law and judicial increased by \$7.6 million. Health and human service-related expenses increased by \$1.9 million. Planning and economic development was down by \$812,000. Interest and fiscal charges were down by \$469,000. The following chart shows the breakdown of expenses in the governmental funds by function.



Business-Type Activities

Revenues in the business-type activities decreased by \$1.38 million while expenses increased by approximately \$1.9 million compared to 2017. The net position increased by \$6.8 million. Public Works issues a separate financial report required by bond agreements. A copy of this report is available from Public Works.

General Fund Budgetary Highlights

	Fiscal Year 2018			
	<i>Original Budget</i>	<i>Total Budget Amendments</i>	<i>Final Budget</i>	<i>Actual</i>
Expenditures and Other Financing Uses	187,096,764	79,787,987	266,884,751	185,999,752
Revenue and Other Financing Sources	195,181,088	1,423,137	196,604,225	193,290,763

Lake County budgets according to Illinois State Statutes. This requires the adoption of an annual budget appropriation and any changes to that budget require emergency appropriations. All budget appropriations expire at the end of the fiscal year. The County must then reappropriate the budget appropriations for projects that were budgeted and not completed in the previous year.

General Fund

The County adopted its 2018 budget on November 14, 2017. The general fund expenditure budget was adopted at \$178,552,583. The budget was amended throughout the year at monthly board meetings resulting in a final expenditure budget of \$258,340,570 including other financing uses. A set of budget amendments, called emergency appropriations, documents the change to the budget. "Carryovers" are emergency appropriations for projects that were not completed in 2018 and had to be carried into 2019. According to Illinois State Statutes, all County appropriations end with the fiscal year. The County does not maintain a separate Capital Fund; rather, all capital projects are budgeted in the General Fund and require an emergency appropriation/carryover of budget dollars for projects that span fiscal years. In 2018, the budget carryover amount in the General Fund was \$70,280,894. These carryovers consisted of:

- \$33.3 million for future long term improvements,
- \$8.1 million for court facility initiatives,
- \$7.7 million for detention facility improvements,
- \$5.5 million for major facility improvement and capital projects in process at the Downtown Waukegan campus and Libertyville campus,
- \$4.4 million for various information technology projects,
- \$3.15 million for unspent grant funds,
- \$2.5 million for smaller constructions, maintenance, system improvements and technology projects in various county buildings,
- \$2.2 million for juvenile justice facility improvements,
- \$1.8 million for emergency dispatch consolidation initiative, and
- \$1.5 million for integrated justice initiatives.

The County spent \$177,859,259 or 68.85% of its 2018 amended budget of \$258,340,570. The following accounts for the majority of the \$80,481,311 unspent budget:

- As mentioned above, the County had a budget carryover amount of \$70.3 million from the 2018 budget to the 2019 budget due to unfinished projects, initiatives, and grants.
- Personnel-related expenses drove most of the expense savings with \$4.5 million in salaries and \$1.8 million in benefits less than budget.

The General Fund had revenues and other financing sources of \$185,150,270. This amount is \$2,909,774 less than the amended budget. Better performance in Taxes (\$3,082,966 greater than budget), made up for shortages in the Charges for services category (\$695,918 under budget, primarily in the area of court-related fees), Fines (\$309,095 under budget), Intergovernmental (\$598,933 under budget), and Investment income (\$603,568 under budget).

Fund Balances

General Fund

The General Fund's fund balance increased by \$7.3 million to \$127.9 million in 2018.

Other Major Governmental Funds

The Health Department Fund decreased by \$0.8 million, or 2.1%, to \$36.97 million in 2018. The ¼% Sales Tax for Transportation and Public Safety Fund increased by 7.2%, or \$6.2 million, to \$92.8 million. This fund accumulates this dedicated revenue stream to execute road improvements as outlined in the Highway Improvement Program, a five-year plan which matches funding with the planned projects.

Capital Asset and Debt Administration

Capital Assets

The governmental funds and business-type activities of the County had total capital assets at the end of the year of \$1,970,852,714 with a fully depreciated value of \$1,090,166,253. In the governmental funds, this includes land of \$70,666,178; construction in progress of \$74,221,834; roads and bridges net of depreciation at \$327,370,784; building and improvements net of depreciation at \$297,107,483; equipment net of depreciation at \$33,499,659; intangible assets net of depreciation at \$2,653,164; and vehicles net of depreciation at \$4,721,297. Business-type activities include land of \$2,577,013; construction in progress of \$46,920,844; intangible assets at \$668,177; building and improvements net of depreciation at \$34,764,628; water facility net of depreciation at \$57,558,016; sewer facility net of depreciation at \$126,687,668; and vehicles, machinery and equipment net of depreciation at \$10,749,508. The chart below summarizes capital asset activity. For more detailed information on capital assets, please refer to Note 5 in the notes to the financial statements.

Capital Assets Net of Depreciation (dollars are in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 70,666	\$ 68,444	\$ 2,577	\$ 2,577	\$ 73,243	\$ 71,021
Roads and bridges	327,371	347,087	-	-	327,371	347,087
Buildings and improvements	297,107	179,184	34,765	35,532	331,872	214,716
Non-building improvements	-	-	184,246	185,952	184,246	185,952
Intangible assets	2,653	2,493	668	668	3,321	3,161
Vehicles and equipment	38,221	47,235	10,749	8,788	48,970	56,023
Construction in progress	74,222	141,110	46,921	45,305	121,143	186,415
Total	\$ 810,240	\$ 785,553	\$ 279,926	\$ 278,822	\$ 1,090,166	\$ 1,064,375

In 2018, the County added \$152.3 million in governmental assets before depreciation and decreased construction in progress by \$66.9 million for a total increase of \$85.4 million. This was offset by disposals of roads, building, equipment and vehicles for a capital asset increase of \$89.4 million, net of depreciation. Additional detail regarding the capital assets follows:

\$2.22 million in land acquisitions

- \$961,000 for road right of ways
- \$880,000 in major road projects, including work in progress and completion of reconstruction realignment and major resurfacing projects
- \$382,000 for miscellaneous flood prevention properties

\$126.8 million (before depreciation) in building projects including

- \$112 million Lake County Courthouse Expansion Project
- \$4.93 million Zion Medical Clinic
- \$2.8 million Depke Juvenile Center Expansion
- \$2.44 million for Jail renovations
- \$1.56 million County tower
- \$1.15 million in Department of Transportation Campus
- \$508,000 for the Child Advocacy Center
- \$411,000 for various County locations
- \$368,000 for Health Department Grand Campus
- \$352,000 for various Health Department locations
- \$281,000 for Belvedere Medical Center

\$10.5 Million (before depreciation) in equipment including:

- \$1.7 million for Lake County Court Expansion
- \$1.6 million for Transportation equipment
- \$1.5 million Computer Equipment for various departments
- \$995,000 for furniture for various court locations
- \$828,000 for Countywide Radio Communication
- \$660,000 for Depke Juvenile Center Expansion
- \$595,000 for County Clerk Remodel
- \$480,000 for furniture and equipment for various Health Department
- \$464,000 for various software
- \$378,000 for furniture and equipment for various County departments
- \$300,000 for Security Equipment
- \$290,000 for Integrated Justice
- \$211,000 for Emergency 911
- \$200,000 for Storage equipment
- \$150,000 for Firewall Project
- \$149,000 for Zion Medical Clinic

\$1.38 million (before depreciation) in vehicle purchases including:

- \$893,000 in vehicles for the Sheriff's Department
- \$487,000 to various departments

\$26.8 million Construction in process includes:

- \$25.5 million for roads and bridge construction
- \$1.3 million for Land Management System

\$657,000 in intangible assets.

The Public Works Department invested nearly \$10.2 million primarily in water and sewer facilities.

The following chart illustrates the County's capitalization policy in governmental funds:

Asset Category	Threshold
Land	\$ 50,000
Land improvements	\$100,000
Buildings/building improvements	\$100,000
Machinery/equip/furnishings	\$ 25,000
Vehicles	\$ 15,000
Roads and bridges	\$200,000
Intangible assets	\$200,000

Long-Term Debt

As evidenced by the chart below, at the end of 2018, Lake County had outstanding debt in the governmental funds of \$187.2 million. For more detailed information on debt, please refer to Note 6 in the notes to the financial statements.

As of November 30, 2018, the enterprise fund had \$64.6 million in outstanding debt, including \$26.9 million of series ordinance revenue bonds and \$37.7 million in subordinate revenue bonds.

Outstanding Debt General Obligation and Revenue Bonds (dollars are in thousands)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 187,241	\$ 193,577	\$ -	\$ -	\$ 187,241	\$ 193,577
Revenue bonds	-	-	64,613	66,329	64,613	66,329
Total	\$ 187,241	\$ 193,577	\$ 64,613	\$ 66,329	\$ 251,854	\$ 259,906

The County has a credit rating of AAA from Standard and Poor's and a credit rating of Aaa from Moody's Investment Services. The County has held both of these ratings since 2001.

Economic Factors and Next year's Budget Highlights

- The annual average unemployment rate in 2018 was 4.1% in Lake County. The rate in the State of Illinois for the same time period was 4.4% and the U.S. rate was 3.7%.
- The 2018 EAV (which is used for the property tax collected in Fiscal Year 2019) was \$26,805,191,001. The last 10 years of EAV growth can be found in the Statistical Section.
- The FY2019 Adopted Budget totals \$525,874,787. Over the last several years, staffing levels were cut to directly align with workload levels and technology advancements and streamlined service have led to more efficient operations. Actual County expenditures will be significantly less, totaling \$448,299,712 million after removing dollars that are moved internally between County funds.
- Most County operations are funded in the Property Tax Operating budget. The budget for these funds totals \$329,401,793 for FY2019.
- The total levy recommended for FY2019 is \$165,731,304. This revenue sources makes up 32% of total revenue and is the County's most stable revenue source.
- The adopted Fiscal year 2019 budget aligns with the values, goals and strategies outlined in the County's Strategic Plan. The Strategic Plan has five overarching goals: enhancing economic opportunities, promoting a sustainable environment, building healthy and resilient communities, providing public safety, and reducing congestion and improving transportation in Lake County. The strategic plan informs and guides decisions throughout the year. The County also tracks and analyzes performance metrics and uses the data to drive decision-making.

Requests for Information

This financial report is designed to provide the citizens, taxpayers, customers and investors with the general overview of the County's finances and to show the County's commitment to public accountability. This report is available on the County's website if you have any questions about this report or wish to request any additional information please contact Finance and Administrative Services, 18 North County Street, 9th floor, Waukegan, Illinois 60085.