

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, 2017. Because the management's discussion and analysis is designed to focus on the financial performance of fiscal 2017 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 \$1,150,596,895 including \$815,237,843 net investment in capital assets, \$219,734,811 in restricted net position and \$115,624,241 in unrestricted net position.
- Total fund balance for governmental funds was \$365,143,548 including \$3,056,869 in nonspendable resources, \$242,669,384 in restricted funds, \$43,373,373 in committed funds, \$17,520,485 in funds assigned by the County Board, and \$58,523,437 in unassigned balances.
- The County's enterprise fund had total operating revenue of \$42,286,641 and total operating expenses of \$41,511,343 including \$9,007,145 for depreciation expense. Operating expenses exceeded revenues as a result of increased depreciation expense of \$203,674. Additionally, operation supplies, non-capital equipment and building maintenance increased by \$865,812 for planned changes in inventory and facility improvements. Net cash flow from operating activities for the enterprise fund was \$8,652,335.
- The County's governmental activities major tax revenues consisted of \$163,313,294 in property tax distributions and \$60,998,179 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:

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

Budgetary Comparison

Statements are included in the required supplementary information or supplementary information for the four major funds: the General Fund, Health Department Fund, ¼% Sales Tax for Transportation and Public Safety, and 2015 Bond Construction Fund. 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	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 596,977	\$ 626,649	\$ 79,795	\$ 68,281	\$ 676,772	\$ 694,930
Capital assets, net	785,553	706,821	278,822	269,266	1,064,375	976,087
Total assets	1,382,530	1,333,470	358,617	337,547	1,741,147	1,671,017
Deferred outflows	75,487	94,946	2,798	3,609	78,285	98,555
Liabilities						
Current and other liabilities	52,720	45,544	12,881	8,239	65,601	53,783
Non-current liabilities	358,328	380,560	67,098	61,824	425,426	442,384
Total liabilities	411,048	426,104	79,979	70,063	491,027	496,167
Deferred inflows	176,963	164,407	846	631	177,809	165,038
Net Position						
Net investment in capital assets	604,653	577,423	210,585	213,744	815,238	791,167
Restricted	218,992	214,186	32,919	29,510	251,911	243,696
Unrestricted	46,361	46,296	37,087	27,208	83,448	73,504
Total net position	\$ 870,006	\$ 837,905	\$ 280,591	\$ 270,462	\$ 1,150,597	\$ 1,108,367

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 \$1,150,596,895 at the end of fiscal 2017. Of this \$815,237,843 is net investment in capital assets. Net investment in capital assets increased by \$24.1 million from 2016 to 2017. In 2017, the County invested \$8.2 million in land and related improvements, \$89.3 million in road and bridges, \$16.3 million in buildings and improvements, \$28.1 million in equipment, \$0.7 million in intangibles, and \$2.0 million in vehicles.

Governmental Activities Net Position

The \$44,069,950 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 \$2.3 million or 5% 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 \$221.3 million at year-end, an increase of \$7.1 million compared to 2016, 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 \$280,590,333. This includes \$32,918,939 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 increased by \$3.4 million was the net result of fund transfers. The unrestricted net position totaled \$37,086,637 and can be used to pay for day-to-day operations for business-type activities. Unrestricted net position increased by \$7,588,802 from 2016 to 2017 primarily related to increased water rates and connection fees.

Changes in Net Position

Lake County's combined increase in net position was \$41,890,554. The change in net position for governmental activities was \$31,762,007 increase and for business-type activities it was a \$10,128,547 decrease.

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 11.3 to 1. For business-type activities the ratio is 6.2 to 1. As a whole, the County's current ratio is 10.3 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)						
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 37,477	\$ 94,396	\$ 42,287	\$ 38,475	\$ 79,764	\$ 132,871
Operating grant and contributions	78,986	35,927	343	340	79,329	36,267
Capital grants and contributions	10,462	10,686	8,938	2,069	19,400	12,755
General revenues:						
Property tax	159,946	158,047	377	360	160,323	158,407
Sales tax	60,998	61,640	-	-	60,998	61,640
Other shared revenue	14,408	14,423	-	-	14,408	14,423
Investment earnings	3,075	6,724	295	174	3,370	6,898
Miscellaneous	9,185	3,939	-	-	9,185	3,939
Gain on sale of assets	-	281	21	106	21	387
Total revenue	374,537	386,063	52,261	41,524	426,798	427,587
Expenses:						
General government	56,431	81,028	-	-	56,431	81,028
Law and judicial	131,188	124,048	-	-	131,188	124,048
Health and human services	85,633	87,824	-	-	85,633	87,824
Transportation	53,941	59,034	-	-	53,941	59,034
Planning and economic development	11,441	14,905	-	-	11,441	14,905
Interest and fiscal charges	7,510	7,772	-	-	7,510	7,772
Water and sewer	-	-	42,133	43,126	42,133	43,126
Total expenses	346,144	374,611	42,133	43,126	388,277	417,737
Change in net position	28,393	11,452	10,128	(1,602)	38,521	9,850
Beginning net position	838,245	826,453	270,462	272,064	1,108,707	1,098,517
Ending net position	\$ 866,638	\$ 837,905	\$ 280,590	\$ 270,462	\$ 1,147,228	\$ 1,108,367

Governmental Activities

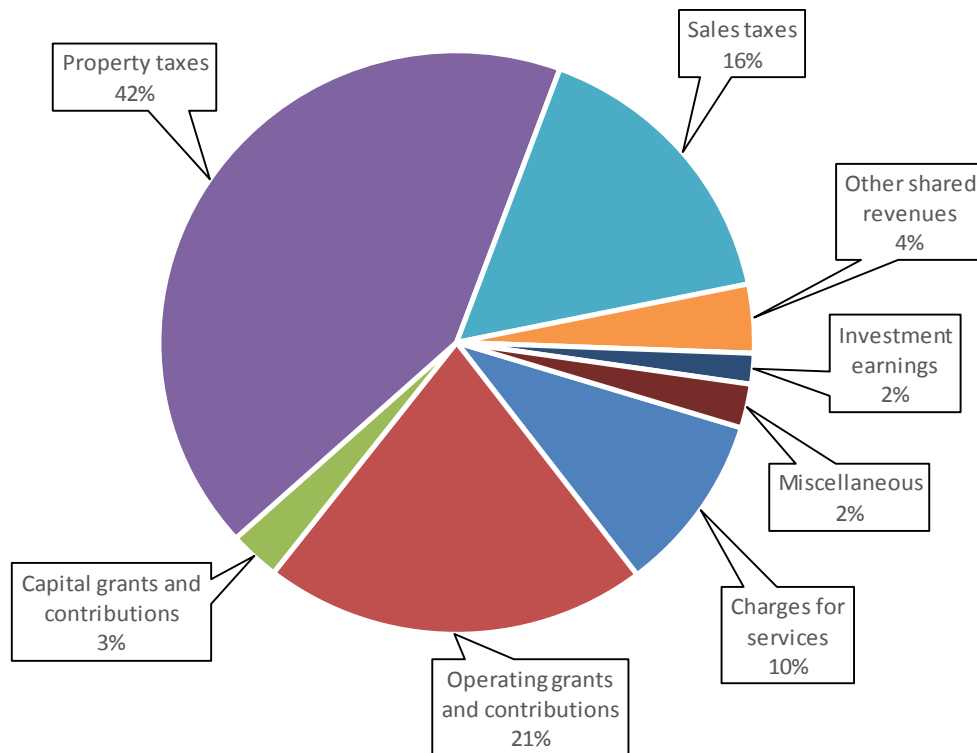
Governmental Revenues

The County had total program revenues of \$126,925,985 and general revenues of \$251,266,825. As graphically portrayed below, the County receives 59% of its income from various tax revenues. Property taxes are considered the most stable tax and account for 43% of all taxes. The County consistently collects over 99% of its extended levy and in 2017 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) increased by 4.5% in 2017. The County's actual 2017 tax rate of .632 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 43%. Property tax receipts grew by \$5.3 million or 3.3% from 2016 to 2017.

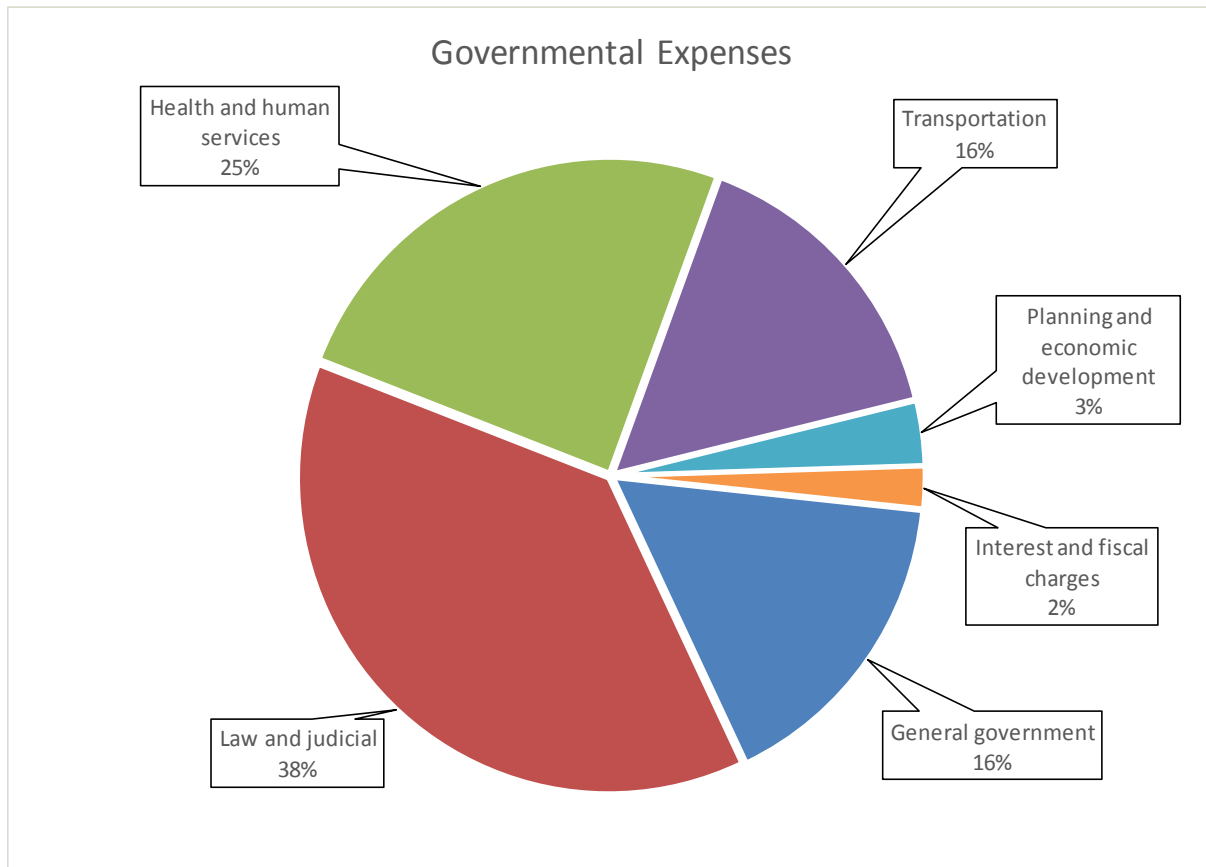
Sales tax makes up 16% of the total governmental revenues. Sales tax decreased by \$0.6 million or 1% compared to 2016. Operating Grants make up 21% of total government revenues and increased by \$43.1 million or 120%. Capital grants decreased by \$224,000 or 2.0% compared to 2016. Investment earnings, which make up 1% of governmental revenues in during 2017, decreased \$3.6 million or 54.3% compared to 2015.

Governmental Revenues



Governmental Functional Expenses

The County had a total of \$346,430,803 in governmental expenses in fiscal 2017. This is a decrease from 2016 of \$28.2 million. General government was down \$22.9 million and Transportation up by \$24.9 million. Law and judicial increased by \$2.5 million. Health and human service-related expenses decreased by \$25.6 million. Planning and economic development was down by \$6.8 million. Interest and fiscal charges were down by \$0.3 million. The following chart shows the breakdown of expenses in the governmental funds by function.



Business-Type Activities

Revenues in the business-type activities increased by \$10.7 million while expenses increased by approximately \$1.0 million compared to 2016. The net position increased by \$10.1 million. Public Works issues a separate financial report required by bond agreements. A copy of this report is available from Public Works.

	Fiscal Year 2017			
	<i>Original Budget</i>	<i>Total Budget Amendments</i>	<i>Final Budget</i>	<i>Actual</i>
Expenditures and Other Financing Uses	179,829,048	79,559,864	259,388,912	185,394,404
Revenue and Other Financing Sources	186,941,855	1,683,449	188,625,304	185,735,101

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 2017 budget on November 8, 2016. The general fund budget was adopted at \$171,649,175. The budget was amended throughout the year at monthly board meetings resulting in a final budget of \$251,209,039 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 2017 and had to be carried into 2018. 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 2017, the budget carryover amount in the General Fund was \$42,373,372. These carryovers consisted of:

- \$273,748 for Juvenile Justice improvements
- \$15.44 million for the various phases of the Court-related initiative in Waukegan
- \$10.27 million for major facility improvement and capital projects in process in the Downtown Waukegan campus,
- \$9.47 million for smaller construction, maintenance, and technology projects in various county buildings and equipment purchases,
- \$3.26 million in reserves for unspecified long-term improvements,
- \$1.6 million for major improvement projects in process in the Libertyville campus,
- \$2.06 million for unspent grant funds.

The County spent \$177,254,569 or 70.6% of its 2017 amended budget of \$251,209,039. The following accounts for the majority of the \$73,954,470 unspent budget:

- As mentioned above, the County had a budget carryover amount of \$42.4 million from the 2017 budget to the 2018 budget due to unfinished projects, initiatives, and grants.
- Once again, personnel related expenses drove most of the expense savings with \$2.4 million in salaries and \$495,064 in benefits less than budget.

The General Fund had revenues and other financing sources of \$177,595,266. This amount is \$2,850,165 less than the amended budget. Slightly lower performance in Taxes (\$430,089 less than budget), Investment income (\$555,529 greater than budget) and Licenses and permits (\$270,295 greater than budget) made up for significant shortages in the Charges for services category, which was \$1,099,422 under budget, primarily in the area of court-related fees.

Fund Balances

General Fund

The General Fund's fund balance increased by \$0.3 million to \$120.6 million in 2017.

Other Major Governmental Funds

The Health Department Fund decreased by \$1.6 million, or 4.0%, to \$37.8 million in 2017. The ¼% Sales Tax for Transportation and Public Safety Fund increased by 10.22%, or \$8.0 million, to \$86.6 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. The 2015 Bond fund represents the financing and capital outlay for the courthouse expansion project and decreased by \$43.7 million, or 69.7%, to \$19.0 million.

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 \$1,630,005,713 with a fully depreciated value of \$1,064,375,892. In the governmental funds, this includes land of \$68,443,558; construction in progress of \$141,110,385; roads and bridges net of depreciation at \$347,086,567; building and improvements net of depreciation at \$179,183,599; equipment net of depreciation at \$41,963,165; intangible assets net of depreciation at \$2,609,003; and vehicles net of depreciation at \$5,157,141. Business-type activities include land of \$2,577,013; construction in progress of \$45,305,172; intangible assets at \$668,177; building and improvements net of depreciation at \$35,532,377; water facility net of depreciation at \$50,900,021; sewer facility net of depreciation at \$114,938,574; and vehicles, machinery and equipment net of depreciation at \$8,787,970. 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)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Land	\$ 68,444	\$ 60,212	\$ 2,577	\$ 2,577	\$ 71,021	\$ 62,789
Roads and bridges	347,087	286,808	-	-	347,087	286,808
Buildings and improvements	179,184	169,801	35,532	37,581	214,716	207,382
Non-building improvements	-	-	185,952	186,343	185,952	186,343
Intangible assets	2,609	2,545	668	668	3,277	3,213
Vehicles and equipment	47,119	25,938	8,788	9,823	55,907	35,761
Construction in progress	141,110	161,517	45,305	32,274	186,415	193,791
Total	<u>\$ 785,553</u>	<u>\$ 706,821</u>	<u>\$ 278,822</u>	<u>\$ 269,266</u>	<u>\$ 1,064,375</u>	<u>\$ 976,087</u>

In 2017, the County added \$144.7 million in governmental assets before depreciation and decreased construction in progress by \$108.1 million for a total increase of \$124.3 million. This was offset by disposals of equipment and vehicles for a capital asset decrease of \$0.3 million, net of depreciation. Additional detail regarding the capital assets follows:

\$8.2 million in land acquisitions

- \$7.5 million for road right of ways
- \$610,000 in major road projects, including work in progress and completion of reconstruction realignment and major resurfacing projects
- \$114,000 for Zion Clinic

\$16.3 million (before depreciation) in building projects including

- \$15.0 million Depke Juvenile Center Expansion
- \$482,000 for Belvedere Medical Center
- \$349,000 in Department of Transportation Campus
- \$469,000 in various County locations

- \$16.4. Million (before depreciation) in equipment including:
- \$9.67 million for Countywide Radio Communication
 - \$2.4 million for Election Equipment
 - \$839,000 for Emergency 911
 - \$774,000 for Integrated Justice
 - \$736,000 Computer Equipment for various departments
 - \$538,000 for Server upgrades
 - \$428,000 for Depke Juvenile Center Expansion
 - \$360,000 for Sheriff equipment
 - \$324,000 for VOIP Conversion
 - \$220,000 for Traffic Management Center
 - \$111,000 for Furniture and equipment for various departments

- \$1.9 million (before depreciation) in vehicle purchases including:
- \$1.03 million in vehicles for the Sheriff's Department
 - \$477,000 to various departments
 - \$425,000 to Transportation fleet maintenance

- \$87.7 million Construction in process includes:
- - \$44.9 million for Justice Court expansion project
 - \$34.3 million for roads and bridge construction
 - \$3.35 million for Storage Building
 - \$2.9 million for Land Management System
 - \$2.04 million for Zion Medical Clinic
 - \$117,000 for Sheriff Office
 - \$115,000 for server upgrades

\$667,00 in intangible assets.

The Public Works Department invested nearly \$18.5 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 2017, Lake County had outstanding debt in the governmental funds of \$193.6 million. For more detailed information on debt, please refer to Note 6 in the notes to the financial statements.

As of November 30, 2017, the enterprise fund had \$65.3 million in outstanding debt, including \$29.3 million of series ordinance revenue bonds and \$36 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>	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 193,577	\$ 200,856	\$ -	\$ -	\$ 193,577	\$ 200,856
Revenue bonds	-	-	66,329	56,217	66,329	56,217
Total	<u>\$ 193,577</u>	<u>\$ 200,856</u>	<u>\$ 66,329</u>	<u>\$ 56,217</u>	<u>\$ 259,906</u>	<u>\$ 257,073</u>

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 2017 was 3.9% in Lake County. The rate in the State of Illinois for the same time period was 4.6% and the U.S. rate was 3.9%.
- The 2017 EAV (which is used for the property tax collected in Fiscal Year 2018) was \$26,301,896. The last 10 years of EAV growth can be found in the Statistical Section.
- The FY2018 Adopted Budget totals \$512,380,179. 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 \$437,262,632 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 \$332,655,684 for FY2018.
- The total levy recommended for FY2018 is \$164,835,214. This revenue sources makes up 32% of total revenue and is the County's most stable revenue source.
- The adopted Fiscal year 2018 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.