

**MORTON GROVE-NILES WATER  
COMMISSION, ILLINOIS**

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**SINGLE AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2018**

# MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

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MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

Schedule of Expenditures of Federal Awards  
December 31, 2018

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Expenditures	Amount Provided to Subrecipients
Environmental Protection Agency	Illinois Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468	L175513	* \$ 18,871,280	-
TOTAL FEDERAL AWARDS EXPENDED						-

\*Denotes major federal program

## **MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

### **Notes to the Schedule of Expenditures of Federal Awards December 31, 2018**

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#### **NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Commission under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commission.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

##### **Pass-Through Entities**

Pass-through entity identifying numbers are presented on the Schedule where available.

#### **NOTE 3 – 10% De Minimis Indirect Cost Rate**

The Commission has selected to use the 10% de minimis indirect cost rate as permitted by 2 CFR Section 200.414



**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 4, 2019

Members of the Board of Commissioners  
Morton Grove-Niles Water Commission, Illinois

We have audited, in accordance with the 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, the financial statements of the Morton Grove-Niles Water Commission (the Commission), Illinois, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 4, 2019.

*Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Commission in a separate letter dated December 4, 2019.

### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP



**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 4, 2019

Members of the Board of Commissioners  
Morton Grove-Niles Water Commission, Illinois

*Report on Compliance for Each Major Federal Program*

We have audited the Morton Grove-Niles Water Commission (the Commission), Illinois' compliance with the types of compliance requirements described in the *Uniform Guidance Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended December 31, 2018. The Commission's major federal programs are identified in the summary of auditor's results section of the accompany schedule of findings and questioned costs.

*Management Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Uniform Guidance required that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the Morton Grove-Niles Water Commission, Illinois complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

### *Report on Internal Control over Compliance*

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



*Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the Morton Grove-Niles Water Commission, Illinois as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements. We issued our report thereon dated December 4, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the basic 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2018**

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**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiencies identified:	No
Noncompliance material to the financial statements noted:	No
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section .510(a):	No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiencies identified:	No

Major programs identified:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program/Cluster</u>
66.468	Capitalization Grants for drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee:	No

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Schedule of Findings and Questioned Costs – Continued  
Year Ended December 31, 2018**

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**SECTION 2 – FINANCIAL STATEMENT AUDIT FINDINGS**

**None**

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Schedule of Findings and Questioned Costs – Continued  
Year Ended December 31, 2018**

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**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**None**

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Schedule of Findings and Questioned Costs – Continued  
Year Ended December 31, 2018**

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**SECTION 4 – PRIOR YEAR AUDIT FINDINGS**

**None**

MORTON GROVE-NILES WATER  
COMMISSION, ILLINOIS

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ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2018

**MORTON GROVE-NILES WATER COMMISION, ILLINOIS**

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## **FINANCIAL SECTION**



## **INDEPENDENT AUDITORS' REPORT**



## **INDEPENDENT AUDITORS' REPORT**

December 4, 2019

Members of the Board of Commissioners  
Morton Grove-Niles Water Commission, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Morton Grove-Niles Water Commission, Illinois, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's 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 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 audit. We conducted our audit 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 of 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 Commission'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 Commission'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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Morton Grove-Niles Water Commission, Illinois, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents and budgetary information reported in the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morton Grove-Niles Water Commission, Illinois' basic financial statements. The financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 financial statements and supplemental schedules are 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 December 4, 2019, on our consideration of the Commission's 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 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 the Commission's 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 the Commission's internal control over financial reporting and compliance.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

MORTON GROVE NILES WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2018

The Morton Grove Niles Water Commission (the Commission) Management's Discussion and Analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Commission's financial activity, (3) identify changes in the Commission's financial position (its ability to address the next and subsequent year challenges), (4) identify any material deviations from the financial plan (the approved budget), and (5) identify individual issues and concerns.

Since the Management's Discussion and Analysis (MD&A) is also designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Commission's financial statements.

#### FINANCIAL HIGHLIGHTS

- The Commission's net position decreased by \$1,943,803 in 2018 created an ending net position of (\$2,703,750).
- During the year, the Commission incurred \$63,410,497 of capitalized engineering and construction costs and Land Purchases related to the design and construction of the Water System.
- As of December 31, 2018, the Commission maintained \$10,812,681 in cash and investments.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements. The basic financial statements are comprised of two components:

- Fund financial statements
- Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

#### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Commission is unique to many governments since it is an entity with only one fund, proprietary in nature.

(See independent auditor's report)

*Notes to the Financial Statements*

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements.

*Other Information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other information concerning the Commission’s progress in funding its obligation to provide pension benefits to its employees.

FINANCIAL ANALYSIS OF THE COMMISSION

Table 1 – Condensed Statement of Net Position

	<u>2018</u>	<u>2017</u>
Capital Assets, net of depreciation	\$ 69,565,155	\$6,154,658
Current and other assets	<u>22,069,578</u>	<u>5,522,209</u>
Total Assets	<u>91,634,733</u>	<u>11,676,867</u>
Other liabilities	7,048,791	936,036
Noncurrent Liabilities	<u>87,289,692</u>	<u>11,500,778</u>
Total Liabilities	<u>94,338,483</u>	<u>12,436,814</u>
Net Investment in Capital Assets	3,108,227	1,612,527
Unrestricted Net position	<u>(5,811,977)</u>	<u>(2,372,474)</u>
Total Net position	<u>(2,703,750)</u>	<u>(759,947)</u>

Table 2 – Condensed Statement of Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operations		
Sale of Water	\$ -	\$ -
Municipal Contribution	216,483	
Interest Income	<u>259,507</u>	
Total Operating Revenues	475,990	<u>0</u>
Operating Expenses		
Operations	2,419,793	759,947
Depreciation	<u>-</u>	<u>-</u>
Total Operating Expenses	2,419,793	759,947
Increase/(Decrease) in Net Position	(\$1,943,803)	(\$ 759,947)

(See independent auditor’s report)

As the Commission is still in construction phase, there is no revenues from the sale of water. The revenues earned are primarily reimbursement from other governments and Interest income earned on the bank accounts.

The total administrative expenses for the Commission were \$2,419,793. These costs include contract costs for superintendent, insurance and other administrative costs.

#### Budgetary Highlights

There were no budget amendments to the commissions budget. For the current year, the operating revenues were under budget as there were limited revenues received as the project is being funded by long term debt. The operating expenditures were under budget for the Commission during the year. As a developing entity, the budget is evolving as the Commissions identifies the true costs of operation.

#### Capital Assets

By the end of 2018, the Commission had invested \$69.6 million in engineering, land purchases and construction for approximately eight (8) miles of water transmission main from the City of Evanston at McCormick and Emerson to the Member points of delivery, three vertical structures including two pumping stations located in Evanston and Morton Grove, and one seven (7) million gallon reservoir located in Morton Grove. Detail of Capital Assets can be found in Note 3.

As we are still in construction phase, there was no depreciation expense in the year.

#### Long Term Debt

The Commission is utilizing long term debt to finance the construction of the water system of the Commission. As of December 31, 2018, the Commission had \$57,165,426 of Illinois Environmental Protection Commission Loans outstanding and \$25,000,000 of General Obligation Alternate Revenue Bonds. Detail of Long Term Debt can be found Note 3.

#### Factors Bearing on the Commission's Future

The Commission is in the final development phase of the transmission system with construction to finish in early 2020. Delivery of water is scheduled to begin in late 2019 with complete independence from the City of Chicago to occur to in early 2020.

#### CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be forwarded to the Morton Grove Niles Water Commission, One Civic Center Drive, Niles, Illinois 60714.

(See independent auditor's report)



## **BASIC FINANCIAL STATEMENTS**

**MORTON GROVE-NILES WATER COMMISION, ILLINOIS**

**Statement of Net Position  
December 31, 2018**

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<b>ASSETS</b>	
Current Assets	
Cash and Investments	\$ 10,812,681
Due from Other Governments	
IEPA Receivable	11,256,897
Total Current Assets	<u>22,069,578</u>
Noncurrent Assets	
Capital Assets	
Nondepreciable Capital Assets	69,565,155
Total Assets	<u>91,634,733</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	5,368,333
Retainage Payable	1,594,012
Accrued Interest	86,446
Total Current Liabilities	<u>7,048,791</u>
Noncurrent Liabilities	
Due to Members	5,007,439
General Obligation ARS Bonds	25,116,827
IEPA Loan Payable	57,165,426
Total Noncurrent Liabilities	<u>87,289,692</u>
Total Liabilities	<u>94,338,483</u>
<b>NET POSITION</b>	
Net Position	
Net Investment in Capital Assets	3,108,227
Unrestricted (Deficit)	<u>(5,811,977)</u>
Total Net Position	<u><u>(2,703,750)</u></u>

The notes to the financial statements are an integral part of this statement.

## MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

### Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended December 31, 2018

	Final		Actual
	Original	Final	
Operating Revenues			
Municipal Contribution	\$ 1,262,942	1,262,942	216,483
Other	10,000	10,000	-
Total Operating Revenues	<u>1,272,942</u>	<u>1,272,942</u>	<u>216,483</u>
Expenses			
Operations	<u>89,009,966</u>	<u>89,009,966</u>	<u>2,419,793</u>
Operating (Loss)	<u>(87,737,024)</u>	<u>(87,737,024)</u>	<u>(2,203,310)</u>
Nonoperating Revenues			
Debt Issuance	91,519,344	91,519,344	-
Interest Income	10,000	10,000	259,507
	<u>91,529,344</u>	<u>91,529,344</u>	<u>259,507</u>
Change in Net Position	<u><u>3,792,320</u></u>	<u><u>3,792,320</u></u>	<u>(1,943,803)</u>
Net Position			
Beginning			<u>(759,947)</u>
Ending			<u><u>(2,703,750)</u></u>

The notes to the financial statements are an integral part of this statement.

## MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

### Statement of Cash Flows For the Fiscal Year Ended December 31, 2018

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Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ (6,494,795)
Payment to Suppliers	1,741,754
	<u>(4,753,041)</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(63,410,497)
Debt Issuance	77,740,122
	<u>14,329,625</u>
Cash Flows from Investing Activities	
Interest Received	<u>259,507</u>
Net Change in Cash and Cash Equivalents	9,836,091
Cash and Cash Equivalents	
Beginning	<u>976,590</u>
Ending	<u><u>10,812,681</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used)	
by Operating Activities	
Operating Income (Loss)	(2,203,310)
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
(Increase) Decrease in Current Assets	(6,711,278)
Increase (Decrease) in Current Liabilities	<u>4,161,547</u>
Net Cash Provided by Operating Activities	<u><u>(4,753,041)</u></u>

The notes to the financial statements are an integral part of this statement.

# **MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

## **Notes to the Financial Statements December 31, 2018**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Morton Grove-Niles Water Commission (the Commission) was formed in March of 2017 to design, construct, finance and operate a regional water supply system that transports and delivers clean, safe and affordable Lake Michigan water to the Villages of Morton Grove and Niles. The water supply comes from the City of Evanston. The Commission is invested in long-term water supply planning and management at stabilized rates that allow for needed infrastructure improvements.

The government-wide financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the Commission's accounting policies established in GAAP and used by the Commission are described below.

#### **REPORTING ENTITY**

The Commission is considered to be a primary government pursuant to GASB Statement No. 14 as amended by GASB Statement No. 61 since it is legally separate and fiscally independent. These financial statements include all functions, programs, and activities under the control of the Board of Commissioners.

As required by GAAP, these financial statements present the Commission and its component units, entities for which the Commission is considered to be financially accountable. There are no component units of the Commission, and the Commission should not be included as a component unit of any of its members.

#### **BASIS OF PRESENTATION**

In the Statement of Net Position, the Commission's activities are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term liabilities obligations.

The Commission uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Commission utilizes a single proprietary fund. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to outside parties.

# **MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

## **Notes to the Financial Statements December 31, 2018**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

#### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

##### **Measurement Focus**

All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

##### **Basis of Accounting**

The Commission’s basic financial statements are presented using 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.

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 Commission are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **ASSETS, LIABILITIES, AND NET POSITION OR EQUITY**

##### **Cash and Investments**

For the purpose of the Statement of Net Position, the cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of purchase. For the purpose of the proprietary funds’ Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand, demand deposits, cash with fiscal agent, and all highly liquid investments with an original maturity of three months or less.

Investments are generally reported at fair value. Short-term investments are reported at cost, which approximates fair value. For investments, the Commission 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 Commission has no investments at year-end.

# MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

## Notes to the Financial Statements December 31, 2018

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### ASSETS, LIABILITIES, AND NET POSITION OR EQUITY – Continued

##### Prepays

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaids.

##### Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Donated capital assets are recorded at acquisition value at the date of donation.

##### Long-Term Obligations

In the financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses at the time of issuance.

##### Net Position

In the government-wide financial statements, equity is classified as net position and displayed in two components:

Net Investment in Capital Assets – Consists of capital assets 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.

Unrestricted – All other net position balances that do not meet the definition of “net investment in capital assets.”

## **MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

### **Notes to the Financial Statements December 31, 2018**

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#### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

##### **BUDGETARY INFORMATION**

Budgets are adopted on a basis consistent with generally accepted accounting principles. The Commission shall operate within a Balanced Budget in each fiscal year. Not later than forty-five (45) days before the end of each fiscal year, the Superintendent must submit to the Board the proposed Balanced Budget for the next fiscal year. “Balanced Budget” means, with respect to a fiscal year, a budget in each case approved by the Board in which (i) the amount of projected revenues and the amount of projected expenses are equal, and (ii) any prior year encumbrance is reflected in such budget as an expense which is offset by a corresponding prior year fund balance relating to such expense included in such budget.

##### **DEFICIT NET POSITION**

The Commission had deficit net position of (\$2,703,750) as of the date of this report.

#### **NOTE 3 – DETAILED NOTES ON THE BASIC FINANCIAL STATEMENTS**

##### **DEPOSITS AND INVESTMENTS**

Permitted Deposits and Investments – Statutes authorize the Commission to make deposits/invest in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, obligations of States and their political subdivisions, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services.

##### **Interest Rate Risk, Credit Risk, Custodial Credit Risk and Concentration Risk**

*Deposits.* At year-end, the carrying amount of the Commission’s deposits totaled \$10,812,681 and the bank balances totaled \$19,066,633.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission’s investment policy states it will minimize interest risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and investing operating funds primarily in shorter-term securities or investment pools.



## MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

### Notes to the Financial Statements December 31, 2018

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#### NOTE 3 – DETAILED NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued

##### DEPOSITS AND INVESTMENTS – Continued

##### Interest Rate Risk, Credit Risk, Custodial Credit Risk and Concentration Risk – Continued

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission's investment policy will limit its investments to the safest types of securities, pre-qualifying the financial institutions, brokers, intermediaries and advisers with which the Commission will do business, and diversifying the investment portfolio so potential losses on individual securities will be minimized.

*Custodial Credit Risk.* In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission's investment policy states a third-party institution will hold pledged securities in trust on behalf of the Commission's financial institution. At year end, the entire bank balance was covered by collateral, federal depository or equivalent insurance.

For an investment, this is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy requires full collateralization of all investments in accordance with the collateral agreement. The Commission will allow the use of FDIC coverage as part of the calculation of full collateralization. At December 31, 2018, the Commission's does not have any investments.

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission's investment policy requires the Superintendent or his designee to review the investment portfolio at least quarterly. Such review shall examine the general performance of the portfolio, as well as determining that current levels of safety, liquidity, rate of return and diversification meet or exceed minimum levels contained herein. At year-end, the Commission does not have any investments over 5 percent of the total cash and investment portfolio (other than investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments).

## MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

### Notes to the Financial Statements December 31, 2018

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#### NOTE 3 – DETAILED NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued

##### CAPITAL ASSETS

The following is a summary of capital assets as of the date of this report:

	Beginning Balances	Additions	Deletions	Ending Balances
Nondepreciable Capital Assets				
Land	\$ -	1,044,560	-	1,044,560
Construction in Progress	6,154,658	62,365,937	-	68,520,595
Total Nondepreciable Capital Assets	<u>6,154,658</u>	<u>63,410,497</u>	<u>-</u>	<u>69,565,155</u>

##### LONG-TERM DEBT

###### Alternate Revenue Source Bonds

The Commission issues bonds to provide funds for the acquisition and construction of major capital facilities. Alternate revenue source bonds provide for the collection, segregation and distribution of certain income taxes received by the Commission for the payment of principal and interest on the alternate revenue source bonds. Alternate revenue source bonds outstanding are as follows:

Issue	Beginning Balances	Issuances	Retirements	Ending Balances
General Obligation Water Bonds (Alternate Revenue Source) of 2018A (\$25,000,000), due in annual installments of \$1,820,000 to \$2,750,000, plus interest at 4.00% to 5.00% through December 1, 2050.	\$ -	25,000,000	-	25,000,000

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Notes to the Financial Statements  
December 31, 2018**

**NOTE 3 – DETAILED NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued**

**LONG-TERM DEBT – Continued**

**IEPA Loans Payable**

The Commission has entered into loan agreements with the IEPA to provide low interest financing for capital improvements. Final repayment schedule for the IEPA Loans Payable of 2017 is not available at the time of the issuance of this report. IEPA loans currently outstanding are as follows:

Issue	Beginning Balances	Issuances	Retirements	Ending Balances
Illinois Environmental Protection Agency (IEPA) Loan Payable of 2017, due in annual installments of including interest at 1.76% through January 1, 2039.	\$ 4,542,131	52,623,295	-	57,165,426

**Long-Term Liability Activity**

Changes in long-term liabilities during the fiscal year were as follows:

Type of Debt	Beginning Balances	Additions	Deductions	Ending Balances	Amounts Due within One Year
<b>Business-Type Activities</b>					
General Obligation Water Bonds (ARS)	\$ -	25,000,000	-	25,000,000	-
Unamortized Premium	-	116,827	-	116,827	-
IEPA Loans Payable	4,542,131	52,623,295	-	57,165,426	-
	4,542,131	77,740,122	-	82,282,253	-

## MORTON GROVE-NILES WATER COMMISSION, ILLINOIS

### Notes to the Financial Statements December 31, 2018

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#### NOTE 3 – DETAILED NOTES ON THE BASIC FINANCIAL STATEMENTS – Continued

##### NET POSITION CLASSIFICATION

Net investment in capital assets was comprised of the following as of December 31, 2018:

Business-Type Activities	
Capital Assets - Net of Accumulated Depreciation	\$ 69,565,155
Plus:	
Unspent Bond Proceeds	15,825,325
Less Capital Related Debt:	
General Obligation Water Bonds (ARS)	(25,000,000)
Unamortized Premium	(116,827)
IEPA Loan Payable of 2017	<u>(57,165,426)</u>
Net Investment in Capital Assets	<u><u>3,108,227</u></u>

#### NOTE 4 – OTHER INFORMATION

##### RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to the Commission's employees. These risks are covered by commercial insurance. This is the first year of operations, therefore there has been no significant reduction in coverage in any program from coverage in the prior year. For all programs, settlement amounts have not exceeded insurance coverage for the current or prior year (from inception).

##### CONTINGENT LIABILITIES

###### Litigation

The Commission is not a defendant in any lawsuits.

###### Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Notes to the Financial Statements  
December 31, 2018**

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**NOTE 4 – OTHER INFORMATION – Continued**

**OTHER POST-EMPLOYMENT BENEFITS**

The Water Commission has evaluated its potential other postemployment benefits liability. The Water Commission does not have a health insurance policy and does not offer health insurance through the Water Commission to current or retired employees, and thus there is no liability to calculate in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Therefore, the Water Commission has not recorded a liability as of December 31, 2018.

## **SUPPLEMENTAL SCHEDULES**

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Schedule of Operating Expenses - Budget and Actual  
For the Fiscal Year Ended December 31, 2018**

	Original Budget	Final Budget	Actual
Operations			
Professional Fees			
Construction Costs			
Permits and Fees	\$ -	-	12,310
Property Tax Expense	-	-	25,340
	<u>79,841,766</u>	<u>79,841,766</u>	<u>37,650</u>
Easement	<u>775,000</u>	<u>775,000</u>	<u>728,241</u>
Professional Services			
Commissioner Superintendent	-	-	333,380
Audit Expense	-	-	6,600
Accounting Services	-	-	10,481
Website Management	-	-	4,543
Legal Notices	-	-	8,092
	<u>367,200</u>	<u>367,200</u>	<u>363,096</u>
Other Professional Services			
Other Professional Services	-	-	37,591
Insurance Costs	-	-	55,437
	<u>26,000</u>	<u>26,000</u>	<u>93,028</u>
Legal and Closing	<u>1,000,000</u>	<u>1,000,000</u>	<u>328,823</u>
Other Business Expenses	<u>-</u>	<u>-</u>	<u>19,391</u>
Total Professional Fees	<u>82,009,966</u>	<u>82,009,966</u>	<u>1,570,229</u>
Other			
Interest Expense	<u>7,000,000</u>	<u>7,000,000</u>	<u>849,564</u>
Total Operating Expenses	<u><u>89,009,966</u></u>	<u><u>89,009,966</u></u>	<u><u>2,419,793</u></u>

**MORTON GROVE-NILES WATER COMMISSION, ILLINOIS**

**Long-Term Debt Requirements**

**General Obligation Water Bonds (Alternate Revenue Source), Series 2018A  
December 31, 2018**

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Date of Issue	March 6, 2018
Date of Maturity	December 1, 2050
Authorized Issue	\$25,000,000
Interest Rate	4.00% to 5.00%
Interest Dates	June 1 and December 1
Principal Maturity Date	December 1, 2050
Payable at	Amalgamated Bank

**CURRENT AND LONG-TERM PRINCIPAL AND INTEREST REQUIREMENTS**

Fiscal Year	Principal	Interest	Totals
2019	\$ -	1,037,350	1,037,350
2020	-	1,037,350	1,037,350
2021	-	1,037,350	1,037,350
2022	-	1,037,350	1,037,350
2023	-	1,037,350	1,037,350
2024	-	1,037,350	1,037,350
2025	-	1,037,350	1,037,350
2026	-	1,037,350	1,037,350
2027	-	1,037,350	1,037,350
2028	-	1,037,350	1,037,350
2029	-	1,037,350	1,037,350
2030	-	1,037,350	1,037,350
2031	-	1,037,350	1,037,350
2032	-	1,037,350	1,037,350
2033	-	1,037,350	1,037,350
2034	-	1,037,350	1,037,350
2035	-	1,037,350	1,037,350
2036	-	1,037,350	1,037,350
2037	-	1,037,350	1,037,350
2038	-	1,037,350	1,037,350
2039	-	1,037,350	1,037,350
2040	1,820,000	1,037,350	2,857,350
2041	1,915,000	946,350	2,861,350
2042	2,010,000	850,600	2,860,600
2043	2,090,000	770,200	2,860,200
2044	2,175,000	686,600	2,861,600
2045	2,260,000	599,600	2,859,600
2046	2,350,000	509,200	2,859,200
2047	2,445,000	415,200	2,860,200
2048	2,540,000	317,400	2,857,400
2049	2,645,000	215,800	2,860,800
2050	2,750,000	110,000	2,860,000
	<u>25,000,000</u>	<u>28,242,650</u>	<u>53,242,650</u>