

Village of Rockton

Rockton, Illinois

Annual Financial Report

May 31, 2017

Village of Rockton, Illinois

Year Ended May 31, 2017

Table of Contents

Independent Auditor's Report	1 - 3
Financial Statements	
Statement of Net Position - Modified Cash Basis	4
Statement of Activities - Modified Cash Basis	5
Balance Sheet - Modified Cash Basis - Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet - Modified Cash Basis - to the Statement of Net Position - Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis - of Governmental Funds to the Statement of Activities - Modified Cash Basis	9
Statement of Net Position - Modified Cash Basis - Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis - Proprietary Funds	11
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	12 - 13
Statement of Net Position – Police Pension Trust Fund	14
Statement of Changes in Net Position – Police Pension Trust Fund	15
Notes to Financial Statements	16 - 47
Other Information	
General Fund: General Fund - Schedule of Revenues and Expenditures Compared with Budget - Modified Cash Basis	48 - 54
Combining Balance Sheet – Modified Cash Basis - Nonmajor Governmental Funds	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis - Nonmajor Governmental Funds	56
Compliance - Independent Accountant's Report	57



Independent Auditor's Report

To the Honorable Mayor and Village Trustees
Village of Rockton, Illinois

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Village of Rockton, Illinois ("Village") as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Village'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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our summary of opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
Wagon Wheel TIF Fund	Unmodified
Chemtool TIF Fund	Unmodified
Downtown TIF Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Police Pension Trust Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on the Pension Trust Fund

As discussed in Note 1 to the financial statements, the Pension Trust Fund has elected to report investments at market value, which differs from the modified cash basis of accounting. The effect on the financial statements is to report a higher value of assets in the amount of \$590,473.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinion on the Pension Trust Fund” paragraph, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the Police Pension Trust Fund of the Village as of May 31, 2017, and the respective changes in financial position - modified cash basis thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, other than the Police Pension Trust Fund, of the Village as of May 31, 2017, and the respective changes in financial position - modified cash basis, and where applicable, cash flows thereof for the year then ended in accordance with the modified basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. Except for the Pension Trust Funds as noted above, the financial statements are prepared on the modified cash basis method of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The additional schedules listed in the table of contents as other information, pages 48 through 56, all of which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Wipfli LLP

Rockford, Illinois
November 10, 2017

Financial Statements

Village of Rockton, Illinois

Statement of Net Position - Modified Cash Basis

May 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 516,746	\$ 1,037,339	\$ 1,554,085
Restricted cash	263,038	37,070	300,108
Investments	113,905	141,089	254,994
Note receivable	6,285	-	6,285
Total current assets	899,974	1,215,498	2,115,472
Capital assets:			
Not depreciated	886,454	-	886,454
Depreciated (net of accumulated depreciation)	6,605,555	3,969,418	10,574,973
Total noncurrent assets	7,492,009	3,969,418	11,461,427
Total assets	8,391,983	5,184,916	13,576,899
Liabilities			
Current liabilities:			
Payroll withholdings and refundable deposits	3,845	-	3,845
Current portion-debt	1,442,667	164,331	1,606,998
Total current liabilities	1,446,512	164,331	1,610,843
Noncurrent liabilities:			
Notes payable	369,109	112,086	481,195
Capital lease payable	36,720	-	36,720
Bonds payable	2,045,405	1,185,000	3,230,405
Total noncurrent liabilities	2,451,234	1,297,086	3,748,320
Total liabilities	3,897,746	1,461,417	5,359,163
Net Position			
Net investment in capital assets	3,598,108	2,508,001	6,106,109
Restricted	717,270	37,070	754,340
Unrestricted	178,859	1,178,428	1,357,287
Total net position	\$ 4,494,237	\$ 3,723,499	\$ 8,217,736

See accompanying notes to financial statements.

Village of Rockton, Illinois

Statement of Activities - Modified Cash Basis

Year ended May 31, 2017

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,696,415	\$ 668,891	\$ 40,891	\$ -
Public safety	1,662,996	73,375	63,625	-
Judiciary and legal	88,841	-	-	-
Public works	905,496	3,375	206,444	-
Social services	12,863	-	-	-
Culture and recreation	485,052	72,676	-	-
Environment	471,988	476,073	-	-
Interest	267,520	-	-	-
Total governmental activities	\$ 5,591,171	\$ 1,294,390	\$ 310,960	\$ -
Business-type activities:				
Water	\$ 617,273	\$ 632,198	\$ -	\$ -
Sewer	478,832	648,275	-	-
Total business activities	\$ 1,096,105	\$ 1,280,473	\$ -	\$ -
General revenues:				
Taxes:				
Property taxes				
State taxes				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (986,633)	\$ -	\$ (986,633)
(1,525,996)	-	(1,525,996)
(88,841)	-	(88,841)
(695,677)	-	(695,677)
(12,863)	-	(12,863)
(412,376)	-	(412,376)
4,085	-	4,085
(267,520)	-	(267,520)
(3,985,821)	-	(3,985,821)
-	14,925	14,925
-	169,443	169,443
-	184,368	184,368
1,349,606	-	1,349,606
2,412,598	45,533	2,458,131
4,248	3,670	7,918
30,778	-	30,778
25,000	(25,000)	-
3,822,230	24,203	3,846,433
(163,591)	208,571	44,980
4,657,828	3,514,928	8,172,756
\$ 4,494,237	\$ 3,723,499	\$ 8,217,736

Village of Rockton, Illinois

Balance Sheet - Modified Cash Basis

Governmental Funds

May 31, 2017

	General Fund	Wagon Wheel TIF Fund	Chemtool TIF Fund	Downtown TIF Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 123,925	\$ -	\$ 340,624	\$ 10,495	\$ 41,702	\$ 516,746
Restricted cash	263,038	-	-	-	-	263,038
Investments	57,216	-	-	-	56,689	113,905
Loan Receivable	2,000	-	-	-	4,285	6,285
Due from other funds	55,287	-	-	-	437	55,724
Total assets	\$ 501,466	\$ -	\$ 340,624	\$ 10,495	\$ 103,113	\$ 955,698
Liabilities						
Payroll withholdings and refundable deposits	\$ 3,845	\$ -	\$ -	\$ -	\$ -	\$ 3,845
Due to other funds	-	55,724	-	-	-	55,724
Total liabilities	3,845	55,724	-	-	-	59,569
Fund Balance						
Fund balance:						
Restricted	263,038	-	340,624	10,495	103,113	717,270
Unassigned	234,583	(55,724)	-	-	-	178,859
Total fund balance	497,621	(55,724)	340,624	10,495	103,113	896,129
Total liabilities and fund balance	\$ 501,466	\$ -	\$ 340,624	\$ 10,495	\$ 103,113	\$ 955,698

See accompanying notes to financial statements.

Village of Rockton, Illinois

Reconciliation of the Governmental Funds Balance Sheet - Modified Cash Basis to the Statement of Net Position - Modified Cash Basis

May 31, 2017

Total fund balances - modified cash basis - governmental funds \$ 896,129

Amounts reported for governmental activities in the statement of net position -
modified cash basis are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. This
amount is the net book value of capital assets reported. 7,492,009

Long-term liabilities, including bonds payable, notes payable, and capital leases
are not reported in the funds. (3,893,901)

Total net position - modified cash basis - governmental activities \$ 4,494,237

Village of Rockton, Illinois

Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis Governmental Funds Year ended May 31, 2017

	General Fund
Revenues	
Taxes	\$ 3,363,679
Licenses, fees and permits	1,164,885
Intergovernmental	1,000
Other revenue	102,719
Total revenues	4,632,283
Expenditures	
Current:	
General government	1,628,518
Public safety	1,468,798
Judiciary and legal	88,841
Public works	289,497
Social services	12,863
Culture and recreation	335,903
Environment	471,988
Debt service	234,225
Capital outlay	185,460
Total expenditures	4,716,093
Excess (deficiency) of revenues over expenditures	(83,810)
Other financing sources (uses)	
Operating transfers in	25,000
Total other financing sources (uses)	25,000
Net change in fund balance	(58,810)
Fund balance (deficit), beginning of year	556,431
Fund balance (deficit), end of year	\$ 497,621

Wagon Wheel TIF Fund	Chemtool TIF Fund	Downtown TIF Fund	Other Governmental Funds	Total Governmental Funds
\$ 103,745	\$ 326,858	\$ 10,549	\$ 120,684	\$ 3,925,515
-	-	-	-	1,164,885
-	-	-	206,444	207,444
25	1,202	21	769	104,736
103,770	328,060	10,570	327,897	5,402,580
9,370	33,998	75	-	1,671,961
-	-	-	126,683	1,595,481
-	-	-	-	88,841
-	-	-	334,230	623,727
-	-	-	-	12,863
-	-	-	-	335,903
-	-	-	-	471,988
115,081	292,897	-	-	642,203
-	-	-	48,434	233,894
124,451	326,895	75	509,347	5,676,861
(20,681)	1,165	10,495	(181,450)	(274,281)
-	-	-	-	25,000
-	-	-	-	25,000
(20,681)	1,165	10,495	(181,450)	(249,281)
(35,043)	339,459	-	284,563	1,145,410
\$ (55,724)	\$ 340,624	\$ 10,495	\$ 103,113	\$ 896,129

Village of Rockton, Illinois

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis of Governmental Funds to the Statement of Activities - Modified Cash Basis

For the year ended May 31, 2017

Net change in fund balance - modified cash basis - governmental funds	\$ (249,281)
Amounts reported for governmental activities in the statement of activities - modified cash basis - are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capitalized fixed assets exceeds depreciation expense in the period.	(288,993)
Debt payments are reported in governmental funds as expenditures. However, only the interest on bonds, notes payable and capital leases is recorded in the statement of activities. This is the amount of debt payments in the period.	374,683
<u>Change in net position - modified cash basis - governmental activities</u>	<u>\$ (163,591)</u>

Village of Rockton, Illinois

Statement of Net Position - Modified Cash Basis

Proprietary Funds

May 31, 2017

	Water Fund	Sewer Fund	Total Proprietary Funds
Assets			
Cash and cash equivalents	\$ 351,543	\$ 685,796	\$ 1,037,339
Restricted cash	37,070	-	37,070
Investments	-	141,089	141,089
Total current assets	388,613	826,885	1,215,498
Capital assets:			
Depreciated (net of accumulated depreciation)	3,111,659	857,759	3,969,418
Total noncurrent assets	3,111,659	857,759	3,969,418
Total assets	3,500,272	1,684,644	5,184,916
Liabilities			
Current liabilities			
Current portion-debt	70,000	94,331	164,331
Total current liabilities	70,000	94,331	164,331
Noncurrent liabilities			
Notes payable	-	112,086	112,086
Bonds payable	1,185,000	-	1,185,000
Total noncurrent liabilities	1,185,000	112,086	1,297,086
Total liabilities	1,255,000	206,417	1,461,417
Net Position			
Net investment in capital assets	1,856,659	651,342	2,508,001
Restricted for:			
Restricted - debt service	37,070	-	37,070
Unrestricted	351,543	826,885	1,178,428
Total net position	\$ 2,245,272	\$ 1,478,227	\$ 3,723,499

Village of Rockton, Illinois

Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis

Proprietary Funds

Year ended May 31, 2017

	Water	Sewer	Total Proprietary Funds
Operating revenues			
Charges for services	\$ 632,198	\$ 648,275	\$ 1,280,473
Operating expenses			
Operating	431,568	375,870	807,438
Depreciation	141,441	94,802	236,243
Total operating expenses	573,009	470,672	1,043,681
Operating income	59,189	177,603	236,792
Nonoperating revenues (expenses)			
Interest income	1,058	2,612	3,670
Replacement taxes	-	45,533	45,533
Interest expense	(44,264)	(8,160)	(52,424)
Total nonoperating revenues (expenses)	(43,206)	39,985	(3,221)
Income before operating transfers	15,983	217,588	233,571
Other financing sources			
Operating transfers out	(25,000)	-	(25,000)
Total other financing sources	(25,000)	-	(25,000)
Change in net position	(9,017)	217,588	208,571
Net position, beginning of year	2,254,289	1,260,639	3,514,928
Net position, end of year	\$ 2,245,272	\$ 1,478,227	\$ 3,723,499

Village of Rockton, Illinois
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
Year ended May 31, 2017

	Water	Sewer	Total Proprietary Funds
Cash Flows from Operating Activities			
Cash received for services	\$ 632,198	\$ 648,275	\$ 1,280,473
Cash payments to suppliers	(303,211)	(166,241)	(469,452)
Cash payments to employees	(137,754)	(135,953)	(273,707)
Net cash provided by operations	191,233	346,081	537,314
Cash Flows from Non-Capital Financing Activities			
Replacement taxes	-	45,533	45,533
Operating transfers in (out)	(25,000)	-	(25,000)
Net cash provided by (used in) non-capital financing activities	(25,000)	45,533	20,533
Cash Flows from Capital Financing Activities			
Payment of long-term debt	(78,097)	(85,656)	(163,753)
Interest paid on long-term debt	(44,264)	(8,160)	(52,424)
Purchase of capital assets	(137,731)	(101,486)	(239,217)
Net cash provided by (used in) capital financing activities	(260,092)	(195,302)	(455,394)
Cash Flows from Investing Activities			
Interest received	1,058	2,612	3,670
Purchase of investments	-	(64,025)	(64,025)
Sale of investments	-	1,500	1,500
Net cash provided by (used in) investing activities	1,058	(59,913)	(58,855)
Net increase (decrease) in cash and cash equivalents	(92,801)	136,399	43,598
Beginning cash and cash equivalents	481,414	549,397	1,030,811
Ending cash and cash equivalents	\$ 388,613	\$ 685,796	\$ 1,074,409

See accompanying notes to financial statements.

Village of Rockton, Illinois

Statement of Cash Flows - Modified Cash Basis (Continued)

Proprietary Funds

Year ended May 31, 2017

	Water	Sewer	Total Proprietary Funds
<i>Reconciliation of operating income to net cash provided by (used in) operating activities</i>			
Operating income	\$ 59,189	\$ 177,603	\$ 236,792
Adjustments to reconcile operating income to net cash provided by operations			
Depreciation expense	141,441	94,802	236,243
Changes in assets and liabilities:			
Due from other funds	-	73,676	73,676
Due to other funds	(9,397)	-	(9,397)
Net cash provided by operations	\$ 191,233	\$ 346,081	\$ 537,314
<i>Noncash investing and financing activities:</i>			
Capital assets purchased with capital leases	\$ -	\$ 28,000	\$ 28,000

Village of Rockton, Illinois

Statement of Net Position

Police Pension Trust Fund

May 31, 2017

Assets

Cash and deposits	\$ 81,597
Investments	4,819,948
Interest Receivable	231
<hr/>	
Total assets	4,901,776

Liabilities

Due to others	-
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Net Position

Held in trust for pension benefits	\$ 4,901,776
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Village of Rockton, Illinois

Statement of Changes in Net Position

Police Pension Trust Fund

Year ended May 31, 2017

Additions

Employer contributions	\$	238,378
Contributions-employees		109,470
Interest income		136,455
Realized gain/(loss)		3,139
Unrealized gain/(loss)		184,221

Total additions		671,663
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Deductions

Benefits and refunds		19,765
Other charges and services		26,631

Total deductions		46,396
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Net increase		625,267
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Net position, beginning of year		4,276,509
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Net position, end of year	\$	4,901,776
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Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Introduction

The financial statements of the governmental and business-type activities of the Village of Rockton (the "Village") have been prepared in conformity with the modified cash basis method of accounting, which is another comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP) as applied to government units, except for the financial statements of the fiduciary fund, which reports investments at market value. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Village are described below.

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

Financial Reporting Entity

The Village is a municipal corporation governed by an elected mayor and six-member board of trustees (board). The accompanying financial statements present the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials are financially accountable or whose exclusion would render the financial statements misleading because of nature and significance of their relationship. The Village has no entities that meet the definition of a component unit.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the Village's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and a fiduciary fund, even though the latter is excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of presentation – fund financial statements

The fund financial statements provide information about the Village's funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Under the Governmental Accounting Standards Board (GASB) issued Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the Village may report any governmental or enterprise fund (but not internal service funds or fiduciary fund) as a major fund if the Village's officials believe the fund is "particularly important to financial statement users". The District has chosen to include the Wagon Wheel TIF Fund and Downtown TIF Fund as a major fund even though the fund calculations do not classify them as major funds. The Village views these funds as particularly important to the financial users.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. It includes the receipt and use of the working cash fund which lends amounts to other funds.

The *Wagon Wheel TIF Fund* is used to account for the receipt of the Wagon Wheel TIF property taxes and the corresponding expenditures related to the TIF District.

The *Chemtool TIF Fund* is used to account for the receipt of the Chemtool TIF property taxes and the corresponding expenditures related to the TIF District.

The *Downtown TIF Fund* is used to account for the receipt of the Downtown TIF property taxes and the corresponding expenditures related to the TIF District.

The Village reports the following major enterprise funds:

The *Water Fund* accounts for the costs related to operation of the Village water services. Funding is provided by user fees.

The *Sewer Fund* accounts for the costs related to operation of the Village sewer services. Funding is provided by user fees.

The Village reports the following fiduciary fund:

The *Police Pension Trust Fund* accounts for the assets accumulated to pay the pension liabilities of the Village's police officers.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of presentation – fund financial statements (Continued)

During the course of operations the Village has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and fiduciary financial statements are reported using the *modified cash basis of accounting*, except for the fiduciary financial statements reporting investments at market value. Revenues are recorded when received and expenses are recorded when paid.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Budgetary information

Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting.

The appropriated budget is prepared by fund, function, and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

Cash and investments

The Village's 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 acquisition. The Village is authorized to invest in funds according to Illinois Compiled Statutes 30 ILCS 235 under the Public Funds Investment Act.

Investments for the fiduciary fund is reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Investment Pool (Pool). In accordance with state law, the Pool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the Pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The Pool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC. Investments for the governmental and business-type activities consist entirely of the Pool and therefore are valued using the amortized cost method.

Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net position unless the income or loss is restricted by the donor or law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and such changes could be material in amount.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,500 for equipment, \$10,000 for buildings and improvements, \$50,000 for infrastructure and an estimated useful life in excess of two years.

The Village has elected to report only prospective infrastructure assets. Infrastructure includes only those assets put in place after May 1, 2004. As the Village constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the Village are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	40
Equipment & Vehicles	5-7
Infrastructure	10-40

Net position flow assumption

Sometimes the Village will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Village itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Village's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the Village that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property tax receipts represent the receipts primarily generated by the 2015 property tax levy.

The 2015 and 2016 levies were passed by the Board on December 22, 2015 and December 20, 2016, respectively. Property taxes attach as an enforceable lien on property as of January 1 and are generally payable in two installments in June and September of the following year. The Village receives significant distributions of tax receipts within one month of these due dates.

Village of Rockton, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Revenues and expenditures/expenses (Continued)

Compensated absences

Vacation - The Village's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from service.

Sick Leave - The Village follows the policy of allowing unused sick days to accumulate. Upon leaving the employment of the Village, the employee shall, upon nonarbitrary termination, receive compensation of one half of his/her accumulated sick days pay.

The Village estimates a liability for accrued compensated absences as of May 31, 2017 to be \$133,668. Since the Village follows a modified cash basis presentation, this amount is not recorded on the financial statements.

Proprietary funds operating and nonoperating revenues and expenses

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Illinois Municipal Retirement Fund (IMRF) and additions to/deductions from IMRF's fiduciary net position have been determined on the same basis as they are reported by IMRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. These amounts are not recorded on the financial statements since the Village reports on the modified cash basis.

Village of Rockton, Illinois

Notes to Financial Statements

Note 2 Stewardship, Compliance and Accountability

Excess of expenditures over appropriations

For the year ended May 31, 2017, the Police Protection Fund's expenditures exceeded appropriations by \$1,683.

Deficit fund equity

At May 31, 2017, the Wagon Wheel TIF Fund had a deficit fund balance of (\$55,724).

Note 3 Cash Deposits with Financial Institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of May 31, 2017, the Village's bank balance was \$1,875,733 and none of that amount was exposed to custodial credit risk because the entire amount was insured and collateralized with securities held by the pledging or financial institution's trust department or agent in the Village's name.

Note 4 Investments

Current accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy, as described under current accounting standards, are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or inputs other than quoted prices that are observable for the asset or liability. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Village of Rockton, Illinois

Notes to Financial Statements

Note 4 Investments (Continued)

As of May 31, 2017, the Village's investments were as follows:

	<u>Cost</u>	<u>Fair Value Level</u>
<i>Governmental Activities</i>		
External investment pool	\$361,458	N/A
Total	<u>\$361,458</u>	
	<u>Fair Value</u>	<u>Fair Value Level</u>
<i>Pension Trust Fund</i>		
External investment pool	\$ 1,007	N/A
Municipal Bonds	670,199	Level 2
U.S. Government Obligations	2,150,466	Level 2
Equity Mutual Funds	<u>1,998,276</u>	<u>Level 1</u>
Total	<u>\$4,819,948</u>	

Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Village has no specific policy on the interest rate risk at year-end.

Information about the sensitivity of the fair values of the Village investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Village's investments by maturity:

	Remaining Maturity (in Months)			<u>Total</u>
	<u>12 Months or Less</u>	<u>13-60 Months</u>	<u>60+ Months</u>	
External investment pool	\$362,465	\$ -	\$ -	\$ 362,465
Municipal Bonds	35,577	103,513	531,109	670,199
U.S. Government Obligations	<u>75,011</u>	<u>696,037</u>	<u>1,379,418</u>	<u>2,150,466</u>
Total	<u>\$473,053</u>	<u>\$799,550</u>	<u>\$1,910,527</u>	<u>\$3,183,130</u>

Village of Rockton, Illinois

Notes to Financial Statements

Note 4 Investments (Continued)

Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments in U.S. Government obligations are not considered to be of any credit risk since they carry the full obligation and guarantee of the U.S. Government. Presented below is the actual rating as of year-end for each investment type:

	Total as of <u>May 31, 2017</u>	<u>Aaa</u>	See Table <u>Below</u>
External investment pool	\$362,465	\$362,465	\$ -
Municipal Bonds	<u>670,199</u>	<u>-</u>	<u>670,199</u>
Totals	<u>\$1,032,664</u>	<u>\$362,465</u>	<u>\$670,199</u>
<i>Rating</i>			
A2		\$35,577	
Aa1		104,812	
Aa2		65,167	
Aa3		412,644	
Not rated		<u>51,999</u>	
Total		<u>\$670,199</u>	

Concentration of Credit Risk:

The Village has no investments, other than mutual funds that are exempted from this requirement, in any one issuer that represent 5% or more of total Village's investments.

Custodial Credit Risk:

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Village will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

As of May 31, 2017 there are no investments with custodial credit risk in that all of its investments are insured.

Foreign Currency Risk:

The Village has no foreign currency risk for investments at year end.

Village of Rockton, Illinois

Notes to Financial Statements

Note 5 Capital Assets

The governmental activities capital asset activity for the year ended May 31, 2017 is as follows:

	<u>Balance June 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance May 31, 2017</u>
Capital assets not being depreciated:				
Land and land improvements	<u>\$ 753,726</u>	<u>\$ 132,728</u>	<u>\$ -</u>	<u>\$ 886,454</u>
Capital assets being depreciated:				
Infrastructure	8,000,414	16,128	-	8,016,542
Buildings and improvements	1,776,480	4,200	-	1,780,680
Equipment and vehicles	<u>1,819,737</u>	<u>80,838</u>	<u>-</u>	<u>1,900,575</u>
 Total capital assets being depreciated	 <u>11,596,631</u>	 <u>101,166</u>	 <u>-</u>	 <u>11,697,797</u>
Less accumulated depreciation for:				
Infrastructure	2,380,606	362,939	-	2,743,545
Buildings and improvements	805,323	44,302	-	849,625
Equipment and vehicles	<u>1,383,426</u>	<u>115,646</u>	<u>-</u>	<u>1,499,072</u>
 Total accumulated depreciation	 <u>4,569,355</u>	 <u>522,887</u>	 <u>-</u>	 <u>5,092,242</u>
 Total capital assets being depreciated, net:	 <u>7,027,276</u>	 <u>(421,721)</u>	 <u>-</u>	 <u>6,605,555</u>
 Governmental activities capital assets, net	 <u>\$7,781,002</u>	 <u>\$(288,993)</u>	 <u>\$ -</u>	 <u>\$ 7,492,009</u>

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:	
General government	\$ 24,454
Public safety	67,515
Public works	281,769
Culture and recreation	<u>149,149</u>
 Total depreciation expense, governmental activities	 <u>\$522,887</u>

Village of Rockton, Illinois

Notes to Financial Statements

Note 5 Capital Assets (Continued)

The business-type activities capital asset activity for the year ended May 31, 2017 is as follows:

	<u>Balance June 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance May 31, 2017</u>
Capital assets being depreciated:				
Infrastructure	\$5,495,993	\$137,731	\$ -	\$5,633,724
Buildings and improvements	2,721,511	-	-	2,721,511
Equipment and vehicles	<u>1,098,506</u>	<u>129,486</u>	<u>-</u>	<u>1,227,992</u>
 Total capital assets being depreciated	<u>9,316,010</u>	<u>267,217</u>	<u>-</u>	<u>9,583,227</u>
 Less accumulated depreciation for:				
Infrastructure	2,249,101	118,695	-	2,367,796
Buildings and improvements	2,284,479	19,759	-	2,304,238
Equipment and Vehicles	<u>843,986</u>	<u>97,789</u>	<u>-</u>	<u>941,775</u>
 Total accumulated depreciation	<u>5,377,566</u>	<u>236,243</u>	<u>-</u>	<u>5,613,809</u>
 Business-type activities capital assets, net	<u>\$3,938,444</u>	<u>\$ 30,974</u>	<u>\$ -</u>	<u>\$3,969,418</u>

Depreciation expense was charged to function/programs of the primary government as follows:

Business-type activities:	
Water	\$141,441
Sewer	<u>94,802</u>
 Total depreciation expense, business-type activities	<u>\$236,243</u>

Note 6 Long-Term Debt

Business-type Activities:

On August 25, 2009, the Village signed a Note Payable for \$560,000. The purpose of this Note is to pay off the existing Alternative Revenue Bonds which were originally held by the Rockton Sanitary District and to provide additional funds for up-grades to the sanitary treatment plant and lift stations. Repayment began on February 25, 2010 and is due semi-annually at a rate of 4.06%. Payment amount is \$34,447 where part of it reduces the outstanding principal and the remaining amount is for interest. Final payment is due on August 25, 2019.

On March 21, 2016, the Village signed a Note Payable for \$34,493. The purpose of this Note is to acquire a truck. The Village agreed to pay 2 annual payments of \$17,945 with interest at 2.65% with final payment due March 21, 2018.

Village of Rockton, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

On January 13, 2017, the Village signed a Note Payable for \$28,000. The purpose of this Note is to acquire a truck. The Village agreed to pay 2 annual payments of \$14,535 with interest at 2.5% with final payment due January 13, 2019.

On February 1, 2013, the Village issued General Obligation Bonds with a principal amount of \$1,585,000 for the purpose of refunding the 2003 General Obligation bonds and funding improvements to the water distribution system. In accordance with the bond agreement, a separate account will be maintained for the purpose of paying off the debt. At any time this account may not contain less than one-sixth of the interest coming due and one-twelfth of the principal coming due. At the beginning of each month, the Village is required to deposit that monthly fractional amount of the upcoming payment until there is a sufficient amount to pay the applicable amount on the due date. Principal and interest payments are to be made every February 1 until 2032. Interest only payments are to be made every August 1 until the principal is paid off. Principal payments range from \$65,000 to \$10,000 per year with interest at 3.35%.

On October 22, 2014, the Village entered a lease agreement for the purchase of 2 GMC Sierra trucks. The Village financed the trucks at a value of \$49,156. The lease is payable in annual installments of \$17,157 at an interest rate of 6.0% due October 22, 2016. The lease was paid off during the fiscal year.

Changes in Business-Type Long-Term Debt:

	Balance at <u>June 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	Balance at <u>May 31, 2017</u>	Due within <u>One Year</u>
Note Payable	\$ 255,976	\$ 28,000	\$ 77,559	\$ 206,417	\$ 94,331
Capitalized leases	16,194	-	16,194	-	-
General Obligation Bonds	<u>1,325,000</u>	<u>-</u>	<u>70,000</u>	<u>1,255,000</u>	<u>70,000</u>
Total	<u>\$1,597,170</u>	<u>\$ 28,000</u>	<u>\$163,753</u>	<u>\$1,461,417</u>	<u>\$164,331</u>

The debt service requirements to maturity are as follows:

Fiscal Year Ended <u>5/31</u>	General Obligation Bonds		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 70,000	\$ 42,042	\$94,331	\$7,054
2019	75,000	39,698	79,790	3,638
2020	80,000	37,185	32,296	1,884
2021	75,000	34,505	-	-
2022	80,000	31,992	-	-
2023 – 2027	415,000	118,423	-	-
2028 – 2033	<u>460,000</u>	<u>47,402</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,255,000</u>	<u>\$351,247</u>	<u>\$206,417</u>	<u>\$12,576</u>

Village of Rockton, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Governmental Activities Long-Term Debt:

On June 28, 2012, the Village signed a Note Payable for \$138,000. The purpose of this Note is to acquire land. The Village agreed to pay 6 annual payments of \$23,000 without interest with final payment due June 28, 2018.

On August 23, 2012, the Village signed a Note Payable for \$60,000. The purpose of this Note is to finance the reconstruction/repaving of the Village Hall Parking Lot. The Village agreed to pay 6 annual payments of \$10,000 without interest with final payment due August 1, 2018.

On June 1, 2012, the Village signed a Note Payable for \$796,634. The purpose of this Note was to refinance the 2008 General Obligation Debt Certificates Series A. One annual payment of \$51,460 was due on October 1, 2012, with 4 annual payments of \$58,439 due beginning on October 1, 2013 with a final payment of \$616,787 due on October 1, 2017 at a rate of 2.85%.

On June 1, 2012, the Village signed a Note Payable for \$178,374. The purpose of this Note was to refinance the 2008 General Obligation Debt Certificates Series B. One annual payment of \$12,365 was due on October 1, 2012, with 4 annual payments of \$14,177 due beginning on October 1, 2013 with a final payment of \$140,097 due on October 1, 2017 at a rate of 3.70%.

On June 1, 2012, the Village signed a Note Payable for \$521,700. The purpose of this Note was to refinance the August 25, 2009 note payable for the Wagon Wheel TIF District area. One annual payment of \$36,175 was due on October 1, 2012, with 4 annual payments of \$41,465 due beginning on October 1, 2013 with a final payment of \$409,740 due on October 1, 2017 at a rate of 3.70%.

On April 30, 2014, the Village signed a Note Payable for \$650,000. The purpose of this Note was to finance athletic field improvements. The Village agreed to pay 6 annual payments of \$120,120 which are due beginning June 30, 2015 at a rate of 2.85% with final payment due June 30, 2020.

On August 16, 2012, the Village entered a 5 year lease agreement for the purchase of two police vehicles. The Village agreed to pay \$49,333 over the life of the lease. The lease is payable in semi-annual installments of \$5,557 at an interest rate of 5.5% due August 16, 2017. The book value of the vehicles is \$4,934.

On October 21, 2013, the Village entered a 5 year lease agreement for the purchase of a new police vehicle. The Village agreed to pay \$30,456 over the life of the lease. The lease is payable in semi-annual installments of \$3,046 at an interest rate of 5.575% due December 31, 2018. The book value of the vehicles is \$8,111.

On December 31, 2013, the Village entered a 5 year lease agreement for the purchase of a new police vehicle. The Village agreed to pay \$29,710 over the life of the lease. The lease is payable in semi-annual installments of \$2,971 at an interest rate of 5.575% due December 31, 2018. The book value of the vehicles is \$7,914.

Village of Rockton, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Governmental Activities Long-Term Debt (Continued):

On October 22, 2014, the Village entered a 3 year lease agreement for the purchase of two new trucks. The Village agreed to finance \$56,319 over the life of the leases. The leases were payable in annual installments of \$19,683 at an interest rate of 5.94% due October 22, 2016. The lease was paid off during the year.

On December 5, 2014, the Village entered a 5 year lease agreement for the purchase of three new police vehicles. The Village agreed to finance \$78,598 over the life of the leases. The leases are payable in annual installments of \$18,174 at an interest rate of 5% due July 1, 2020. The book value of the vehicles is \$39,298.

On February 17, 2009, the Village issued General Obligation Debt Certificates with a principal amount of \$1,000,000 and a Second Lien Tax Increment Allocation Revenue Note with a principal amount of \$1,000,000. Both amounts were issued for the purpose of financing the acquisition, construction and equipping of certain infrastructure improvements and related costs and expenses in connection with the Redevelopment Project and Plan for the Former Beloit Corporation Redevelopment Project Area. The Bonds will be retired through property tax revenue in the Chemtool TIF fund. Principal and interest payments are to be made every December 1 until 2028. Principal and interest payments are \$101,852 for the TIF Note and \$87,185 for the Debt Certificates. Interest rates are 8.0% for the TIF Note and 6.0% for the Debt Certificates.

On February 1, 2013, the Village issued General Obligation Bonds with a principal amount of \$300,000 for the purpose of funding improvements to the athletic parks. In accordance with the bond agreement, a separate account will be maintained for the purpose of paying off the debt. At any time this account may not contain less than one-sixth of the interest coming due and one-twelfth of the principal coming due. At the beginning of each month, the Village is required to deposit that monthly fractional amount of the upcoming payment until there is a sufficient amount to pay the applicable amount on the due date. Principal and interest payments are to be made every February 1 until 2024. Interest only payments are to be made every August 1 until the principal is paid off. Principal payments range from \$25,000 to \$30,000 per year with interest at 2.91%.

On February 1, 2013, the Village issued General Obligation Bonds with a principal amount of \$470,000 for the purpose of refinancing the 2003 GO Bonds. In accordance with the bond agreement, a separate account will be maintained for the purpose of paying off the debt. At any time this account may not contain less than one-sixth of the interest coming due and one-twelfth of the principal coming due. At the beginning of each month, the Village is required to deposit that monthly fractional amount of the upcoming payment until there is a sufficient amount to pay the applicable amount on the due date. Principal and interest payments are to be made every February 1 until 2024. Interest only payments are to be made every August 1 until the principal is paid off. Principal payments range from \$35,000 to \$45,000 per year with interest at 2.91%.

Village of Rockton, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Changes in Governmental Activities Long-Term Debt:

	Balance at June 1, 2016	Additions	Payments	Balance at May 31, 2017	Due within One Year
Note Payable	\$1,847,502	\$ -	\$212,357	\$1,635,145	\$1,266,036
Capitalized leases	118,935	-	54,953	63,982	27,262
General Obligation Bonds	<u>2,302,147</u>	<u>-</u>	<u>107,373</u>	<u>2,194,774</u>	<u>149,369</u>
Total	<u>\$4,268,584</u>	<u>\$ -</u>	<u>\$374,683</u>	<u>\$3,893,901</u>	<u>\$1,442,667</u>

The debt service requirements to maturity are as follows:

Fiscal Year Ended 5/31	Capitalized Leases		General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$27,262	\$2,954	\$149,369	\$168,636	\$1,266,036	\$49,997
2019	19,411	1,656	132,255	129,149	143,435	9,685
2020	17,309	803	147,091	122,567	113,583	6,537
2021	-	-	152,258	115,364	112,091	3,300
2022	-	-	162,777	107,807	-	-
2023 – 2027	-	-	685,868	415,863	-	-
2028 – 2032	-	-	411,277	225,669	-	-
2033 – 2037	-	-	353,879	77,819	-	-
Total	<u>\$63,982</u>	<u>\$5,413</u>	<u>\$2,194,774</u>	<u>\$1,362,874</u>	<u>\$1,635,145</u>	<u>\$69,519</u>

The Village is subject to a debt limitation of 8.625% of its assessed valuation of \$144,707,651. As of May 31, 2017 the Village had \$8,380,717 of remaining legal debt margin. The series 2012A alternative revenue bonds are intended to be repaid by water revenue. Therefore these bonds have not been included in the legal debt margin calculation. The pledged revenue is required to cover 125% of the debt service payments due in the year. The water revenue of \$632,198 covers the required amount of \$114,264.

Note 7 Debt Defeasance

In a prior year, the Village defeased the 2003 and 2008 General Obligation bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Village's government-wide financial statements. As of May 31, 2017, the amount of defeased debt from various issues outstanding but removed from the Village's financial statements amounted to \$1,491,100.

Village of Rockton, Illinois

Notes to Financial Statements

Note 8 Fund Balance Reporting

According to Government Accounting Standards, fund balances are to be classified into five major classifications; Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. Below are definitions of the how these balances are reported.

Nonspendable Fund Balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example inventories and prepaid amounts. The Village has no balances that are nonspendable at year end.

Restricted Fund Balance

The restricted fund balance classification refers to amounts that are subject to outside restrictions, not controlled by the entity. Examples of these restrictions could be those imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village has the following balances that are restricted at year end.

a. Greenspace	\$152,335
b. Dare, drug enforcement & DUI	22,786
c. Our town park	443
d. Police agency vehicle	1,210
e. Maintenance of bridge lookout	11,885
f. Bond reserve	74,379
g. Chemtool TIF	340,624
h. Downtown TIF	10,495
i. Police Protection	12,773
j. Motor Fuel Tax	71,867
k. Revolving Loan	<u>18,473</u>
Total	<u>\$717,270</u>

Committed Fund Balance

The Village Board commits fund balance by making motions or passing resolutions to adopt policy or to approve contracts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contract requirements. The Village Board has no balances that are committed at year end.

Village of Rockton, Illinois

Notes to Financial Statements

Note 8 Fund Balance Reporting (Continued)

Assigned Fund Balance

The assigned fund balance classification refers to amounts that are constrained by the Village's intent to be used for a specific purpose, but are neither restricted nor committed. Intent may be expressed by the Village Board to assign amounts to be used for specific purposes. The Village Board has no balances that are assigned at year end.

Unassigned Fund Balance

The unassigned fund balance classification is the residual classification for amounts in the General Fund for amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund totaling \$234,583. It also includes negative fund balances in other funds, which includes the Wagon Wheel TIF balance of (\$55,724).

Expenditures of Fund Balance

Unless specifically identified, expenditures act to reduce restricted balances first, then committed balances, next assigned balances, and finally act to reduce unassigned balances. Expenditures for a specifically identified purpose will act to reduce the specific classification of fund balance that is identified.

Note 9 Restricted Net Position

Reservations of net position represent amounts that are not appropriable or are legally segregated for a specific purpose. Restricted net position is limited to outside third-party restrictions. The following restricted net position for governmental activities existed as of May 31, 2017:

a. Greenspace	\$152,335
b. Dare, drug enforcement & DUI	22,786
c. Our town park	443
d. Police agency vehicle	1,210
e. Maintenance of bridge lookout	11,885
f. Bond reserve	74,379
g. Chemtool TIF	340,624
h. Downtown TIF	10,495
i. Police Protection	12,773
j. Motor Fuel Tax	71,867
k. Revolving Loan	<u>18,473</u>
Total	<u>\$717,270</u>

The following funds accounted for in the business-type activities/Water Fund have been restricted by bond requirements as follows:

Bond & Interest	<u>\$37,070</u>
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Village of Rockton, Illinois

Notes to Financial Statements

Note 10 Interfund Balances

Below are the interfund balances as of May 31, 2017:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General Fund	\$55,287	\$ -
Wagon Wheel Fund	-	(55,724)
Nonmajor Governmental Funds	<u>437</u>	<u>-</u>
Total	<u>\$55,724</u>	<u>\$(55,724)</u>

The purpose of the interfund balances is to fund short term cash shortfalls in the Wagon Wheel Fund. The balance will be paid as the fund balance increases.

Note 11 Transfers

Below are the interfund transfers as of May 31, 2017:

	<u>Operating Transfers in</u>	<u>Operating Transfers out</u>
Governmental funds:		
General Fund	\$25,000	\$ -
Proprietary funds:		
Water Fund	<u>-</u>	<u>(25,000)</u>
Total all funds	<u>\$25,000</u>	<u>\$(25,000)</u>

The purpose of this transfer was to transfer amounts from the water fund to the general fund to reimburse administrative costs.

Note 12 Tort Insurance Expenditures

The Village charged the following amounts towards the tort insurance levy for the year ended May 31, 2017, which resulted in no restricted fund balance.

Insurance	<u>\$40,528</u>
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Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan

Illinois Municipal Retirement Fund

Plan description – The employer’s defined benefit pension plan for regular employees provides retirement and disability benefits, post-retirement increases, and death benefits to plan members and beneficiaries. The employer’s plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of a multi-employer public pension fund. A summary of IMRF’s pension benefits is provided in the “Benefits Provided” section of this document. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan’s fiduciary net position, and required supplementary information. The report is available for download at www.imrf.org.

Benefits provided - IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff’s Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired **before** January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired **on or after** January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the *lesser* of:

- 3% of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Illinois Municipal Retirement Fund (Continued)

Employees Covered by the Benefit Terms - At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	12
Active employees	16
<hr/>	
Total	35

Contributions – As set by statute, the employer’s Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer’s annual contribution rate for calendar year 2016 was 9.83%. For the fiscal year ended May 31, 2017, the employer contributed \$68,981 to the plan. The employer also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF’s Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability - The employer’s Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The following are the methods and assumptions used to determine total pension liability at December 31, 2016:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Asset Valuation Method** used was Market Value of Assets.
- The **Inflation Rate** was assumed to be 2.75%.
- **Salary Increases** were expected to be 3.75% to 14.50%, including inflation.
- The **Investment Rate of Return** was assumed to be 7.50%.
- **Projected Retirement Age** was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2014 valuation according to an experience study from years 2011 to 2013.
- The IMRF-specific rates for **Mortality** (for non-disabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience.
- For **Disabled Retirees**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives.
- For Active Members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Illinois Municipal Retirement Fund (Continued)

- The **long-term expected rate of return** on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table as of December 31, 2016:

<u>Asset Class</u>	<u>Portfolio Target Percentage</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	38%	7.39%
International Equity	17%	7.59%
Fixed Income	27%	3.00%
Real Estate	8%	6.00%
Alternative Investments	9%	2.75-8.15%
Cash Equivalents	<u>1%</u>	2.25%
Total	100%	

Single Discount rate - A Single Discount Rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.57%, and the resulting single discount rate is 7.50%.

Due to the Village preparing its financial statements on the modified cash basis of the financial reporting, pension liabilities and deferred inflows and outflows referred to throughout the note disclosure are not recognized in the actual financial statements.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Illinois Municipal Retirement Fund (Continued)

Changes in Net Pension Liability

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances, January 1, 2016	\$2,403,197	\$2,174,100	\$229,097
Service costs	69,841	-	69,841
Interest on total pension liability	179,522	-	179,522
Difference between expected and actual experience	(65,678)	-	(65,678)
Changes in assumptions	(2,980)	-	(2,980)
Employer contributions	-	63,529	(63,529)
Employee contributions	-	29,083	(29,083)
Net investment income	-	152,367	(152,367)
Benefit payments – net of refunds	(82,579)	(82,579)	-
Administrative expense	-	-	-
Other changes	-	9,995	(9,995)
Net changes	98,126	172,395	(74,269)
Balances, December 31, 2016	\$2,501,323	\$2,346,495	\$154,828

Sensitivity of the Village's proportionate share of the net pension liability to changes in the discount rate - The following presents the Village's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Village's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
Village's proportionate share of the net Pension liability	\$484,833	\$154,828	\$(105,857)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended May 31, 2016, the Village recognized pension expense of \$68,981. At May 31, 2017, the Village had deferred outflows of resources and deferred inflows of resources related to pensions from the following sources, which are not reported due to a modified cash basis of accounting:

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Illinois Municipal Retirement Fund (Continued)

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ -	\$ 60,957
Changes in assumptions	1,682	2,346
Net difference between projected and actual earnings	100,066	-
Employer contributions subsequent to the measurement date	27,388	-
Total	\$129,136	\$ 63,303

The Village reported \$27,388 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the reporting year ended May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows, which are not reported due to modified cash basis reporting:

Year ended May 31:	Net Deferred Outflows of Resources
2018	\$15,191
2019	15,191
2020	16,031
2021	(7,968)

Police Pension

Plan description - Sworn police personnel are covered by the Police Pension Plan which is a defined benefit single-employer pension plan. Although this is a single-employer pension plan, the defined benefits and employee and employer contributions levels are governed by Illinois Compiled Statutes (Chapter 40-Article 5/3) and may be amended only by the Illinois legislature. The Village accounts for the plan as a pension trust fund.

Benefits provided - The following is a summary of the Police Pension Plan as provided for in the Illinois Compiled Statutes.

The Police Pension Plan provides retirement benefits as well as death and disability benefits under two different "Tiers". "Tier 1" (hired before 01/01/11) employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank held on the last day of service or for one year prior to the last day, whichever is greater.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

The pension shall be increased by 2.5 percent of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75 percent of such salary.

Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly pension of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3 percent of the original pension and 3 percent of the amount of pension payable at the time of the increase annually thereafter.

“Tier 2” (hired on or after 01/01/11) employees attaining the age of 55 or more with 10 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank based on the highest consecutive 96 months of the final 120 months of service. Pensionable salary is capped at \$106,800. The pension shall be increased 2.5% of such salary for each additional year of service over 20 up to a maximum of 75 percent of such salary.

COLA increases begin at age 60 or on the first anniversary of the pension start date whichever is later. COLA increases will be based on the lesser of one half of the CPI-U (certified by the Illinois Department of Insurance) or 3 percent of the originally granted pension.

Employees Covered by the Benefit Terms - At the June 1, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	1
Active employees	17
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Total	18

Contributions - Covered employees are required to contribute 9.91 percent of their base salary to the Police Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The Village is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. Municipalities are required to fund the pension fund to 90 percent of the total actuarial liabilities by 2040.

The Statutes also contain a Portability Ruling that may impact the police pension fund. If a police officer transfers to another fund, that officer's former fund may be required to transfer monies to the officer's current fund if one of two requirements are met. The police officer must have either actively served in the police department for two years or the officer was involuntarily terminated for reasons other than fault of the officer. In these cases, the former fund will be required to transfer to the current fund amounts equal to twice the amounts of employee contributions to the plan plus interest at the rate of 6 percent per year, compounded annually.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

Actuarial assumptions - The Total Pension Liability (TPL) in the June 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions (Economic)

Discount Rate used for the Total Pension Liability	5.87%
Long-Term Expected Rate of Return of Plan Assets	6.00%
High Quality 20 Year Tax-Exempt G.O. Bond Rate	3.69%
Projected Individual Salary Increases	3.50% - 12.53%
Projected Increase in Total Payroll	3.00%
Consumer Price Index (Urban)	2.50%
Inflation Rate Included	2.50%

All rates shown above are assumed to be annual rates compounded on an annual basis.

Actuarial Assumptions (Demographic)

Mortality Table	L&A 2016 Illinois Police
Retirement Rates	L&A 2016 Illinois Police 100% Capped at age 65
Disability Rates	L&A 2016 Illinois Police 100%
Termination Rates	L&A 2016 Illinois Police 100%
Percent Married	80.0%

Assumption Changes – The assumed rate on High Quality 20 Year Tax-Exempt G.O. Bonds was changed from 3.26% to 3.69% for the current year. The choice of index is unchanged from the prior year. The rate has been updated to the current fiscal year end based on changes in market conditions as reflected in the Index. The change was made to reflect our understanding of the requirements of GASB under Statement 67 and Statement 68.

The discount rate used in the determination of the Total Pension Liability was changed from 5.90% to 5.87%. The discount rate is impacted by a couple of metrics. Any change in the underlying High Quality 20 Year Tax Exempt G.O. Bond Rate will impact the blended discount rate.

In addition, there are changes that can be made that impact the projection of the Net Position of the fund. For example, changes in the formal or informal funding policy can impact the discount rate. Actual changes in the net position from one year to the next can impact the projections as well.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

In the current valuation, the mortality assumption were updated to include mortality improvements as stated in the most recently released MP-2016 table. In addition, the rates are being applied on a fully generational basis. In the current valuation, the individual pay scales and total payroll growth assumptions were updated based on review of the most recent collective bargaining agreement. The assumed investment rate of return was also reduced from 6.25% to 6.00%. These changes were made to better reflect the future anticipated experience in the fund.

Illinois Compiled Statutes ILCS) limit the Police Pension Fund's (the Fund) investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment grade corporate bonds, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds and corporate equity securities and real estate investment trusts. During the year, no changes were made to the investment policy.

The long-term expected rate of return on assets is intended to represent the best estimate of future real rates of return and is shown for each of the major asset classes in the investment policy. The expected rates of return shown below have been provided by the investment professionals that work with the pension fund. Future real rates of return are weighted based on the target asset allocation within the Investment Policy Statement. Expected inflation is added back in. A summary of the best estimate of future real rates of returns (annual arithmetic average) are included in the table below. The Investment Policy Statement will provide more detail regarding the Fund's policies on asset allocation targets and acceptable ranges.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equity	28.00%	6.40%
Small Cap Domestic Equity	8.00%	8.40%
International Equity	4.00%	6.70%
Fixed Income	60.00%	1.20%

ILCS limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

All investments in the plan are stated at fair value and are recorded as of the trade date. Fair value is based on the quoted market prices as of May 31, 2017 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Long-term expected real returns under GASB are expected to reflect the period of time that begins when a plan member begins to provide service to the employer and ends at the point when all benefits to the plan member have been paid. The rates provided above are intended to estimate those figures.

The expected inflation rate is 3.20% and is included in the total long-term rate of return on investments. The inflation rate is from the same source as the long-term real rates of return, and is not necessarily reflective of the inflation measures used for other purposes in the report.

Long-term rates of return may exhibit geometric properties. Geometric rates of return are equal to arithmetic rates of return when the annual returns exhibit no volatility over time. When arithmetic returns are volatile on a year-to-year basis, the actual realized geometric returns over time will be lower. The higher the volatility, the greater the difference.

Municipal Bond Rate - The municipal bond rate assumption is based on The Bond Buyer 20-Bond GO Index. The rate shown earlier in the Actuarial Assumption section is the May 25, 2017 rate. The 20-Bond GO Index is based on an average of certain general obligation municipal bonds maturing in 20 years and having an average rating equivalent of Moody's Aa2 and Standard & Poor's AA.

The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds.

Discount Rate - The discount rate used in the determination of the Total Pension Liability is based on a combination of the expected long-term rate of return on plan investments and the municipal bond rate.

Cash flow projections were used to determine the extent which the plan's future net position will be able to cover future benefit payments. To the extent future benefit payments are covered by the plan's projected net position, the expected rate of return on plan investments is used to determine the portion of the net pension liability associated with those payments. To the extent future benefit payments are not covered by the plan's projected net position, the municipal bond rate is used to determine the portion of the net pension liability associated with those payments.

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

The plan's projected net position is expected to cover future benefit payments in full for the current employees through 2078.

Projected benefit payments are determined during the actuarial process based on the assumptions. More details on the assumptions are in the prior section. The expected contributions are based on the funding policy of the plan.

Changes in Net Pension Liability

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balances, June 1, 2016	\$6,410,637	\$4,276,510	\$2,134,127
Service costs	337,878	-	337,878
Interest on total pension liability	375,724	-	375,724
Difference between expected and actual experience	(136,607)	-	(136,607)
Changes in assumptions	(172,090)	-	(172,090)
Employer contributions	-	238,378	(238,378)
Employee contributions	-	109,470	(109,470)
Net investment income	-	310,042	(310,042)
Benefit payments – net of refunds	(19,765)	(19,765)	-
Administrative expense	-	(12,858)	12,858
Other changes	-	-	-
Net changes	385,140	625,267	(240,127)
Balances, May 31, 2017	\$6,795,777	\$4,901,777	\$1,894,000

Sensitivity of the Village's net pension liability to changes in the discount rate - The following presents the Village's net pension liability calculated using the discount rate listed in the assumption section, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.87 percent) or 1-percentage-point higher (6.87 percent) than the current rate:

	1% Decrease (4.87%)	Current Rate (5.87%)	1% Increase (6.87%)
Net Pension Liability	\$3,376,655	\$1,894,000	\$741,125

Village of Rockton, Illinois

Notes to Financial Statements

Note 13 Pension Plan (Continued)

Police Pension (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended May 31, 2017, the Village recognized pension expense of \$238,378. At May 31, 2017, the Village had deferred outflows of resources and deferred inflows of resources related to pensions from the following sources, which are not reported due to a modified cash basis of accounting:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 72,260	\$124,951
Changes in assumptions	58,721	157,406
Net difference between projected and actual earnings	100,678	35,196
Total	\$231,659	\$317,553

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows, which are not reported due to modified cash basis reporting:

Year ended May 31:	Net Deferred Outflows (Inflows) of Resources
2018	\$13,688
2019	13,688
2020	13,686
2021	(19,872)
2022	(11,073)
Thereafter	(96,011)

Note 14 Contingencies

From time to time, the Village is party to other pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Village's financial position or results of operations.

Village of Rockton, Illinois

Notes to Financial Statements

Note 15 Risk Management

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to handle such risks of loss, the Village purchases insurance coverage through Illinois Municipal League Risk Management Association. The deductibles in effect through these policies as of May 31, 2017 vary with the type of coverage and risk involved. The Village may incur additional expense in the future to cover the liabilities of the Association based on claim experience. There have been no significant reductions in coverage since the prior year. The amounts of settlements have not exceeded insurance coverage for any of the past three years.

Note 16 Commitments/Subsequent Events

During the year, the Village purchased land on which it plans to build a new Public Works Building. As of June 2017, the Village Board had approved bids for the site work and construction of the building for approximately \$2,200,000. In July 2017, the Village signed a construction loan to borrow up to \$2,500,000 on the project.

The Village is also in the process of getting an IEPA loan approved for \$5,000,000 to be used for a new water tower, electronic meters and reading system, and the rework of water mains and hydrants. No amounts had been committed as of May 31, 2017.

Subsequent to year end on September 19, 2017, the Village Board approved the purchase of a sewer jetter truck in the amount of \$367,309. They will pay \$200,000 as a down payment and obtain a 6 year lease for the remaining amount.

Note 17 Development Agreements

The Village established a Former Wagon Wheel Site Redevelopment Project Area, as defined by the Tax Increment Allocation Redevelopment Act. The Village has signed two agreements for commercial developments within this area. The Village signed a note for \$80,000 with one developer to be paid back from property tax increments assessed on his parcel. The Village signed a note with another developer for \$524,246 plus interest, to be paid back from property tax increments assessed on his parcel. The Village agreed to pay off the note in full if the developer completed his project by December 31, 2007. The developer did meet this deadline. In September, 2008, the Village issued general obligation debt certificates for \$1,000,000 to pay the note plus interest, plus reimburse the Village for costs incurred to establish the Tax Increment Redevelopment area and provide for capital improvements within the redevelopment area.

In agreements dated October 21, 2008, the Village established a Former Beloit Corporation Redevelopment Project Area, as defined by the Tax Increment Allocation Redevelopment Act. The Village has signed two agreements for commercial developments within this area. The Village signed a note for \$1,000,000 with one developer to be paid back from property tax increments assessed on this parcel. The Village signed a note with another developer for \$1,000,000 plus interest, to be paid back from property tax increments assessed on this parcel.

Village of Rockton, Illinois

Notes to Financial Statements

Note 18 Pending Accounting Pronouncements

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. The Village is required to implement this standard for the fiscal year ending May 31, 2019.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* amends the required the presentation to include the covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Statement are effective for reporting period in which the measurement date of the pension liability is after June 15, 2017.

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations, and requires the current value of a government’s asset retirement obligations to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this Statement are effective for reporting period in which the measurement date of the pension liability is after June 15, 2018.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases*, will be effective for the District beginning with its year ending June 30, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Management has not completed its assessment of these pending standards as to the effect, if any, they may have on the financial statements.

Other Information

Village of Rockton, Illinois

General Fund

Schedule of Revenues and Expenditures

Compared with Budget - Modified Cash Basis

Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Revenues			
Taxes:			
Property taxes:			
Corporate	\$ 299,835	\$ 317,429	\$ (17,594)
Streets & bridges	28,071	32,038	(3,967)
Sanitation & garbage	9,588	10,117	(529)
IMRF	37,878	39,065	(1,187)
Social security	118,140	122,394	(4,254)
Tort liability	40,528	42,015	(1,487)
Audit	11,094	11,522	(428)
Police pension fund	238,378	238,184	194
Crossing guards	3,121	3,232	(111)
Unemployment tax	1,137	1,124	13
Township taxes	20,535	22,300	(1,765)
Municipal retailers occupational tax	1,382,522	1,372,000	10,522
Replacement tax	56,738	58,800	(2,062)
State income tax	723,649	783,870	(60,221)
Charitable games tax	49,633	50,750	(1,117)
State use and photo processing	187,792	180,597	7,195
Telecommunications tax	155,040	193,250	(38,210)
Total taxes	3,363,679	3,478,687	(115,008)
Licenses, fees, and permits:			
Public utility franchises	78,827	79,000	(173)
Licenses and permits:			
Retail liquor licenses	33,600	35,500	(1,900)
Tobacco licenses	450	450	-
Other licenses and permits	89,090	117,100	(28,010)
Charges for services -			
Garbage collection fee	467,689	467,700	(11)
Electric infrastructure fee	296,820	247,100	49,720
Swimming pool	68,577	64,700	3,877
Garbage penalty	8,384	8,100	284

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Revenues (Continued)			
Licenses, fees, and permits (continued):			
Fines and forfeitures	79,758	125,000	(45,242)
DUI revenue	-	5,000	(5,000)
Sporting event security	3,799	3,800	(1)
Employee dental and health insurance	37,891	27,455	10,436
Total licenses, fees, and permits	1,164,885	1,180,905	(16,020)
Intergovernmental:			
State and Federal Grants	1,000	550,000	(549,000)
Total intergovernmental	1,000	550,000	(549,000)
Other revenue:			
Rental income	19,560	18,360	1,200
Donations and reimbursements	57,703	64,100	(6,397)
Drug forfeitures/seizures	7,922	5,000	2,922
Interest	2,231	500	1,731
Miscellaneous	15,303	23,800	(8,497)
Total other revenue	102,719	111,760	(9,041)
Total revenues	4,632,283	5,321,352	(689,069)

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Expenditures			
General government:			
Administrative:			
Salaries	164,965	169,000	(4,035)
Insurance	389,309	380,000	9,309
Engineering	39,631	15,000	24,631
Zoning expense	4,123	3,900	223
Telephone	4,551	4,900	(349)
Professional organization	6,164	6,700	(536)
Training and Travel	11,352	14,600	(3,248)
Illinois municipal league conference	11,211	10,000	1,211
Supplies	7,620	9,000	(1,380)
Office equipment	31,722	36,000	(4,278)
Stateline bus service	25,000	25,000	-
Codification of ordinance	1,804	3,000	(1,196)
Sales tax rebates	30,656	30,000	656
Software upgrade	32,309	31,000	1,309
Ifiber	7,200	7,500	(300)
Miscellaneous	6,961	5,200	1,761
Total administrative	774,578	750,800	23,778
Payroll tax and tort liability:			
Unemployment insurance tax	10,318	11,000	(682)
Social security contribution	151,603	164,500	(12,897)
IMRF contributions	68,981	68,200	781
Police pension expense	238,378	238,184	194
Liability insurance	197,146	120,650	76,496
Total payroll tax and tort liability	666,426	602,534	63,892
Economic Development:			
Council of 100/Downtown development	22,800	54,500	(31,700)
Special events	15,244	15,000	244
Advertising	2,030	10,000	(7,970)
Total economic development	40,074	79,500	(39,426)
Audit	12,500	12,750	(250)

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Expenditures (Continued)			
General government (continued):			
Treasurer:			
Village treasurer retainer	32,750	34,000	(1,250)
Buildings and grounds:			
Salaries	67,139	82,860	(15,721)
Telephone	12,496	14,300	(1,804)
Utilities	18,325	18,000	325
Maintenance equipment and supplies	30,561	36,700	(6,139)
Capital expenditures	84,294	38,540	45,754
Miscellaneous	511	-	511
Total buildings and grounds	213,326	190,400	22,926
Total general government	1,739,654	1,669,984	69,670
Public safety:			
Police Department:			
Salaries	1,184,988	1,228,253	(43,265)
Uniforms, badges and patches	15,613	18,050	(2,437)
Uniform cleaning	2,709	3,500	(791)
Equipment & vehicle maintenance	45,538	44,000	1,538
Postage and supplies	8,274	8,000	274
Telephone	2,003	3,300	(1,297)
Wireless communications	15,346	20,000	(4,654)
Forms and printing	7,229	8,500	(1,271)
Professional memberships	27,675	28,517	(842)
Travel, training and supplies	29,840	30,500	(660)
Gas, oil and car washes	32,912	33,600	(688)
Drug expenditures	2,484	9,000	(6,516)
Capital expenditures	72,370	64,250	8,120
DARE	319	600	(281)
DUI Expenditures	146	3,000	(2,854)
Lease/purchase	47,618	47,063	555
Miscellaneous	15,576	7,000	8,576
Total police department	1,510,640	1,557,133	(46,493)

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Expenditures (Continued)			
Public safety (continued):			
Police commission:			
Salaries	1,800	1,800	-
Testing expenses	3,773	5,100	(1,327)
Legal fees	3,555	5,000	(1,445)
Training and travel	1,566	1,500	66
Publication	602	1,400	(798)
Total police commission	11,296	14,800	(3,504)
School crossing guards:			
Salaries and equipment	5,058	5,972	(914)
Total public safety	1,526,994	1,577,905	(50,911)
Judiciary and legal:			
Legal:			
Village attorney	87,222	95,000	(7,778)
Litigation expenses	1,619	20,000	(18,381)
Total legal	88,841	115,000	(26,159)
Public works:			
Streets and Sidewalks:			
Salaries	96,560	109,980	(13,420)
Uniform allowances	1,687	1,766	(79)
Equipment maintenance	31,924	26,000	5,924
Traffic light maintenance	2,267	4,000	(1,733)
Contract snow removal	2,411	4,000	(1,589)
Landscaping and restoration	245	1,500	(1,255)
Engineering	11,558	75,000	(63,442)
Avery storage rental	1,400	1,400	-
Supplies	2,259	1,250	1,009
Tools and equipment	3,212	4,000	(788)
Gas and oil	16,533	25,000	(8,467)
Traffic signs	3,058	5,000	(1,942)

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Expenditures (Continued)			
Public works (continued)			
Streets and Sidewalks:			
Street maintenance	24,119	15,000	9,119
Capital expenditures	16,818	24,800	(7,982)
Electricity/pole rental	54,734	42,000	12,734
Wireless communication	770	1,500	(730)
Phase II Overlay	30,150	75,000	(44,850)
Miscellaneous	1,000	31,000	(30,000)
Total public works	300,705	448,196	(147,491)
Social services:			
Health department:			
Animal control	12,863	13,000	(137)
Total social services	12,863	13,000	(137)
Culture and recreation:			
Public Parks:			
Salaries	62,053	66,000	(3,947)
Hut program	3,766	5,000	(1,234)
Christmas walk	14,476	6,500	7,976
Uniforms	447	750	(303)
Equipment maintenance	2,865	2,500	365
Landscaping	1,947	4,000	(2,053)
Professional memberships	309	500	(191)
Utilities	19,118	14,000	5,118
Supplies	6,560	5,000	1,560
Tools and equipment	19,660	20,000	(340)
Training & travel	978	2,000	(1,022)
Gas and oil	206	300	(94)
Banner advertising	139	1,000	(861)
Rockton athletic field	100,032	663,044	(563,012)
System repair and maintenance	5,917	5,000	917
Dog Park	586	1,000	(414)
Miscellaneous	2,100	2,600	(500)
Total public parks	241,159	799,194	(558,035)

Village of Rockton, Illinois
 General Fund (Continued)
 Schedule of Revenues and Expenditures
 Compared with Budget - Modified Cash Basis
 Year ended May 31, 2017

	Actual	Original and Final Budget	Over (Under) Budget
Expenditures (Continued)			
Culture and recreation (Continued):			
Swimming Pool:			
Salaries	59,004	58,000	1,004
Amenities	2,858	5,000	(2,142)
Maintenance	7,782	6,500	1,282
Telephone	430	350	80
Utilities	7,292	10,000	(2,708)
Water treatment testing and supplies	15,045	15,000	45
Miscellaneous supplies	7,253	8,750	(1,497)
Total swimming pool	99,664	103,600	(3,936)
Total culture and recreation	340,823	902,794	(561,971)
Environment:			
Garage collection:			
Residential pickup fees	471,988	473,650	(1,662)
Total environment	471,988	473,650	(1,662)
Debt service:			
Principal	202,249	-	202,249
Interest	31,976	200,671	(168,695)
Total debt service	234,225	200,671	33,554
Total expenditures	4,716,093	5,401,200	(685,107)
Other Financing Sources (Uses)			
Operating transfers in	25,000	50,000	(25,000)
Sale of fixed assets	-	9,000	(9,000)
Total other financing sources (uses)	25,000	59,000	(34,000)
Net change in fund balance	\$ (58,810)	\$ (20,848)	\$ (37,962)

Village of Rockton, Illinois

Combining Balance Sheet - Modified Cash Basis

Nonmajor Governmental Funds

May 31, 2017

	Police Protection Fund	Motor Fuel Tax Fund	Revolving Loan Fund	Total Nonmajor Governmental Funds
Assets				
Cash and deposits	\$ 12,773	\$ 15,178	\$ 13,751	\$ 41,702
Investments	-	56,689	-	56,689
Loan Receivable	-	-	4,285	4,285
Due from other funds	-	-	437	437
Total assets	\$ 12,773	\$ 71,867	\$ 18,473	\$ 103,113
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Fund Balance				
Restricted	12,773	71,867	18,473	103,113
Total liabilities and fund balance	\$ 12,773	\$ 71,867	\$ 18,473	\$ 103,113

Village of Rockton, Illinois

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis

Nonmajor Governmental Funds

Year ended May 31, 2017

	Police Protection Fund	Motor Fuel Tax Fund	Revolving Loan Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 120,684	\$ -	\$ -	\$ 120,684
Intergovernmental	-	206,444	-	206,444
Other income	110	510	149	769
Total revenues	120,794	206,954	149	327,897
Expenditures				
Public safety	126,683	-	-	126,683
Public works	-	382,664	-	382,664
Total expenditures	126,683	382,664	-	509,347
Net change in fund balance	(5,889)	(175,710)	149	(181,450)
Fund balances, beginning of year	18,662	247,577	18,324	284,563
Fund balances, end of year	\$ 12,773	\$ 71,867	\$ 18,473	\$ 103,113



Independent Accountant's Report

To the Honorable Mayor and Village Trustees
Village of Rockton, Illinois

We have examined the Village of Rockton, Illinois' (the "Village") compliance with the provisions of subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act (Illinois Public Act 85-1142) during the year ended May 31, 2017. Management is responsible for the Village's compliance with those requirements. Our responsibility is to express an opinion on the Village's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Village's compliance with specified requirements.

In our opinion, the Village of Rockton, Illinois, complied, in all material respects, with the aforementioned requirements for the year ended May 31, 2017.

This report is intended solely for the information and use of management, the Village Board, others within the Village, the Illinois State Comptroller's Office and the joint review boards and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Rockford, Illinois
November 10, 2017