

CITY OF PROSPECT HEIGHTS, ILLINOIS
PALATINE/MILWAUKEE
TAX INCREMENT FINANCING FUND

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT AND
COMPLIANCE REPORT

AS OF AND FOR THE YEAR ENDED APRIL 30, 2017

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Prospect Heights
Prospect Heights, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund, as of and for the year ended April 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund'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 City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Honorable Mayor and Members of City Council
City of Prospect Heights

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund as of April 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing Fund and do not purport to, and do not, present fairly the financial position of the City of Prospect Heights, as of April 30, 2017, and the changes in financial position, or cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Report on Other Legal and Regulatory Requirements

We have also issued a report dated December 19, 2017, on our consideration of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing Fund's compliance with laws, regulations, contracts and grants.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 19, 2017

INDEPENDENT AUDITORS' COMPLIANCE REPORT

The Honorable Mayor and Members of the City Council
City of Prospect Heights
Prospect Heights, Illinois

We have audited the financial statements of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing Fund, as of and for the year ended April 30, 2017, and have issued our report thereon dated December 19, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Prospect Heights failed to comply with provisions of Subsection (q) of Section 11-74.4-3 of Public Act 85-1142, "An Act in Relation to Tax Increment Financing", insofar as it relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced statute, insofar as it relates to accounting matters.

This report is intended solely for the information and use of the City Council, management, the State of Illinois, and others within the City and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly Veitchau Krause, LLP

Oak Brook, Illinois
December 19, 2017

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
BALANCE SHEET
AS OF APRIL 30, 2017

Assets

Cash and investments	\$ 527,412
Receivables (net)	
Property taxes	<u>736,442</u>
 Total assets	 <u>\$ 1,263,854</u>

Liabilities, Deferred Inflows of Resources and Fund Balance

Liabilities

Accounts payable	\$ 50,000
Due to other funds	<u>1,019,312</u>
 Total liabilities	 <u>1,069,312</u>

Deferred Inflows of Resources

Property taxes levied for future periods	\$ <u>736,442</u>
 Total deferred inflows of resources	 <u>736,442</u>

Fund Balance (Deficit)

Unassigned	<u>(541,900)</u>
 Total fund balance (deficit)	 <u>(541,900)</u>
 Total liabilities, deferred inflows of resources and fund balance	 <u>\$ 1,263,854</u>

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED APRIL 30, 2017

Revenues:

Property taxes	\$	205,558
Investment income		<u>1,039</u>
Total revenues		<u>206,597</u>

Expenditures:

General Government		
Professional services		4,661
Service charges and fees		<u>850</u>
Total General Government		<u>5,511</u>

Debt Service

Principal		445,000
Interest		<u>46,305</u>
Total Debt Service		<u>491,305</u>

Total expenditures		<u>496,816</u>
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Excess (deficiency) of revenues over expenditures		<u>(290,219)</u>
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Other Financing Sources (Uses):

Transfers out		<u>(60,100)</u>
Total Other Financing Sources (Uses)		<u>(60,100)</u>

Net change in fund balance		<u>(350,319)</u>
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Fund balance (deficit), beginning of year		<u>(191,581)</u>
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Fund balance (deficit), end of year	\$	<u><u>(541,900)</u></u>
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CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Palatine/Milwaukee Tax Increment Financing District Fund (the Fund) of the City of Prospect Heights, Illinois (the city), have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the city's accounting policies are described below.

Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With the measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period. For this purpose, the city considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. The city recognizes property taxes when they become both measurable and available and for the period intended to finance. Expenditures are recorded when the related fund liability is incurred. The revenues susceptible to accrual are property taxes and investment income.

Reporting Entity

The Palatine/Milwaukee Tax Increment Financing District Fund is a fund of the City of Prospect Heights, Illinois. These accompanying financial statements are limited to presenting only the individual fund and do not include any other funds of the city.

The reporting entity consists of the Palatine/Milwaukee Tax Increment Financing District and its component units. Component units are legally separate organizations for which the Palatine/Milwaukee Tax Increment Financing District is financially accountable or other organizations for which the nature and significance of their relationship with the Palatine/Milwaukee Tax Increment Financing District are such that their exclusion would cause the reporting entity's financial statements to be misleading. The city has not identified any organizations that meet this criteria.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Fund Balance

Equity is classified as fund balance in the financial statements and displayed in five components:

Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.

Restricted - Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the city. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the city that originally created the commitment.

Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. The city has adopted a financial policy authorizing the city administrator or finance director to assign funds for specific purposes. Any funds set aside as assigned fund balance must be reported to the city council at their next regular meeting. The governing board has the authority to remove or change the assignment of the funds with a simple majority vote. Assignments may take place after the end of the reporting period.

Unassigned - Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Permitted Deposits and Investments

Illinois Statutes authorize the city to make deposits/investments 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 agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

At April 30, 2017, the total cash and investments of the Fund were \$527,412. The cash and investments were comprised of a money market account (\$523,554) and investments in Illinois Funds (\$3,858).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The city's investment policy seeks to ensure preservation of capital in the city's overall portfolio. Return on investment is of secondary importance to safety of principal and liquidity. To the extent possible, the city will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the city will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the city may collateralize its repurchase agreements using longer dated investments not to exceed thirty (30) years to maturity. Reserve funds may be invested in securities of three (3) years maturity or less, if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The city's policy requires the investment portfolio to be sufficiently liquid to enable the city to meet all operating requirements as they come due. At April 30, 2017 the city's investment in the money market was due on demand.

Custodial Credit Risk – Deposits

With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The city's investment policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured with collateralization pledged by the applicable financial institution to the extent of 110% of the value of the deposit. Collateral will always be held by an independent third party with whom the city has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the city and retained. At year end, the Fund did not have any deposits that were exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that the issuer of a debt security will not pay its par value upon maturity. State Statutes limit the investments in commercial paper to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The city's investment policy authorizes investments in any type of security allowed for in Illinois statutes regarding the investment of public funds. The money market was not rated and Illinois Funds is rated AAAa.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
 NOTES TO FINANCIAL STATEMENTS
 AS OF AND FOR THE YEAR ENDED APRIL 30, 2017

NOTE 3 – RECEIVABLES - TAXES

Property taxes for levy year 2017 attaches as an enforceable lien on January 1, 2017, on property values assessed as of the same date. Taxes are levied by December following the lien date (by passage of a Tax Levy Ordinance). The 2017 tax levy has not been recorded as a receivable as of April 30, 2017, as the tax has not yet been levied by the city, and therefore, the levy is not measurable at April 30, 2017.

Tax bills for levy year 2016 are prepared by the county and issued on or about February 1, 2017 and July 1, 2017, and are payable in two installments, on or about March 1, 2017 and August 1, 2017 or within 30 days of the tax bills being issued.

The county collects such taxes and remits them periodically. The 2016 property tax levy is recognized as a receivable and deferred inflow of resources in fiscal 2017, net of amounts already collected and of an allowance for uncollectible. As the taxes become available to finance current expenditures, they are recognized as revenues.

NOTE 4 – LONG-TERM DEBT

Tax Increment Financing Bonds

Tax increment financing bonds are payable from incremental taxes derived from a separately created tax increment financing district.

Tax Increment Financing Bonds at April 30, 2017, consists of the following:

<i>Tax Increment Financing Notes</i>	<i>Date of Issue</i>	<i>Final Maturity</i>	<i>Interest Rates</i>	<i>Original Indebtedness</i>	<i>Balance April 30, 2017</i>
Palatine/Milwaukee TIF Notes	6/1/2004	12/1/2017	3.5% - 4.9%	\$ <u>5,225,000</u>	\$ <u>500,000</u>

Annual debt service requirements to maturity are as follows:

	<i>Principal</i>	<i>Interest</i>
2018	\$ <u>500,000</u>	\$ <u>24,500</u>
Total	\$ <u>500,000</u>	\$ <u>24,500</u>

NOTE 5 – INTERFUND PAYABLES

At April 30, 2017, the Fund had an amount due to the City's General Fund in the amount of \$1,019,312. The principal purpose of this interfund is to cover a cash overdraft that will be repaid after one year.

NOTE 6 – INTERFUND TRANSFERS

During the year ended April 30, 2017, the Fund transferred funds to the City's General Fund in the amount of \$60,100 to repay the City's General Fund for eligible Fund expenditures incurred.