

City of Freeport

Freeport, Illinois

Annual Financial Report

April 30, 2013

City of Freeport, Illinois

Year Ended April 30, 2013

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City of Freeport, Illinois

Year Ended April 30, 2013

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Independent Auditor's Report

The Honorable Mayor
Members of the City Council
City of Freeport, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Freeport, Illinois, as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Freeport, Illinois, as of April 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress and budgetary comparison information on pages 60 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Freeport, Illinois' financial statements. The additional schedules listed in the table of contents as other information, pages 76 through 89, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other information, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of the City of Freeport, Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Freeport, Illinois' internal control over financial reporting and compliance.



Freeport, Illinois
October 28, 2013

Management Discussion and Analysis

City of Freeport, Illinois

Management's Discussion and Analysis

As management of City of Freeport, Illinois, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of City of Freeport, Illinois for the year ended April 30, 2013.

The MD&A is provided at the beginning of the report to provide an overview of the City's financial position at April 30, 2013 and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the financial statements, notes to the financial statements, required and other supplementary information.

Using this Financial Report

The financial section of this annual report consists of four parts - Independent Auditor's Reports, required supplementary information which includes the MD&A (this section), the basic financial statements, and other information. The basic financial statements include two kinds of statements that present different views of the City:

Government -Wide Financial Statements

The first two statements are government-wide financial statements that provide both short term and long term information about the City's overall financial status, similar to a private sector business. In the government-wide financial statements the City's activities are shown in two categories - governmental activities and business-type activities. The City's governmental activities are general government, public safety, judiciary and legal, public works, social services, and culture and recreation. These activities are largely financed with sales taxes, income taxes, property taxes, and user fees. The City's business-type activities include water, sewer, storm sewer, landfill closure, and health and environment. These activities are largely financed with user fees.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City you need to consider additional non-financial factors such as the condition of the City's buildings and facilities.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. The financial statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned regardless of when the cash is received and expenditures/expenses and liabilities are recognized when incurred, regardless of when payment is made.

City of Freeport, Illinois

Management's Discussion and Analysis

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds - not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law, while others are established to control and manage money for particular purposes or to show that the City is properly using certain revenues.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for each. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and the changes in fund balances for all these funds. One of these seventeen funds is considered a major fund of the City. More detail of the individual revenues and expenditures for these funds is presented in other information of this report.

The City maintains five individual business-type funds. Information is presented separately in the proprietary statement of net position and in the proprietary statement of revenues, expenses, and the changes in net position for all these funds. Three of these five funds are considered major funds of the City.

The City adopts annual budgets for all funds. A budgetary comparison statement has been provided for the major funds only, which is in compliance with GASB Statement No.34.

Fiduciary Funds - The City is the trustee, or fiduciary, for assets that belong to others or are designated to be used for a specific purpose with the principal left intact. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. The City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

City of Freeport, Illinois

Management's Discussion and Analysis

Condensed Financial Information

Net position is summarized in the table below.

Condensed Statement of Net Position as of April 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current Assets	\$14,918,350	\$14,483,910	\$ 6,949,387	\$ 5,215,380	\$21,867,737	\$19,699,290
Non-current Assets	<u>15,351,413</u>	<u>15,364,995</u>	<u>59,331,445</u>	<u>52,320,519</u>	<u>74,682,858</u>	<u>67,685,514</u>
Total Assets	<u>30,269,763</u>	<u>29,848,905</u>	<u>66,280,832</u>	<u>57,535,899</u>	<u>96,550,595</u>	<u>87,384,804</u>
Liabilities:						
Current Liabilities	5,069,814	5,128,603	4,151,314	3,228,487	9,221,128	8,357,090
Non-current Liabilities	<u>13,158,408</u>	<u>12,564,000</u>	<u>35,323,163</u>	<u>28,140,561</u>	<u>48,481,571</u>	<u>40,704,561</u>
Total liabilities	<u>18,228,222</u>	<u>17,692,603</u>	<u>39,474,477</u>	<u>31,369,048</u>	<u>57,702,699</u>	<u>49,061,651</u>
Net Position:						
Net investment in capital assets	10,823,018	11,489,699	23,904,914	24,171,071	34,727,932	35,660,770
Restricted	1,932,709	2,199,307	2,443,857	1,619,209	4,376,566	3,818,516
Unrestricted	<u>(714,186)</u>	<u>(1,532,704)</u>	<u>457,584</u>	<u>376,571</u>	<u>(256,602)</u>	<u>(1,156,133)</u>
Total net position	<u>\$12,041,541</u>	<u>\$12,156,302</u>	<u>\$26,806,355</u>	<u>\$26,166,851</u>	<u>\$38,847,896</u>	<u>\$38,323,153</u>

Current assets consist of cash, investments, receivables, and prepaid items.

The City's largest asset group is its capital assets. This includes buildings, infrastructure, equipment, and vehicles.

Current liabilities consist mainly of accounts payable, deferred revenue, and the current portion of long-term debt.

General obligation bonds, notes payable, lease obligations, landfill liability, and net pension and OPEB obligations constitute the City's long-term liabilities.

The City's net position consists of net investment in capital assets, restricted and unrestricted net position.

City of Freeport, Illinois

Management's Discussion and Analysis

Condensed Financial Information (Continued)

Revenues, expenses, and changes in net position are summarized in the table below.

Condensed Statement of Activities For Fiscal Years Ending April 30, 2013 and 2012

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program:						
Charges for services	\$ 1,436,114	\$ 1,545,025	\$8,937,734	\$8,860,577	\$10,373,848	\$10,405,602
Operating grants & contributions	2,405,873	2,717,060	-	-	2,405,873	2,717,060
General:						
Property & other taxes	19,135,558	18,840,980	-	-	19,135,558	18,840,980
Other	<u>877,989</u>	<u>673,851</u>	<u>20,660</u>	<u>20,494</u>	<u>898,649</u>	<u>694,345</u>
Total revenues	<u>23,855,534</u>	<u>23,776,916</u>	<u>8,958,394</u>	<u>8,881,071</u>	<u>32,813,928</u>	<u>32,657,987</u>
Expenses:						
General government	9,952,735	9,397,309	-	-	9,952,735	9,397,309
Public safety	6,955,252	9,137,970	-	-	6,955,252	9,137,970
Judiciary and legal	193,822	178,489	-	-	193,822	178,489
Public works	5,182,830	4,847,178	-	-	5,182,830	4,847,178
Social services	56,489	79,189	-	-	56,489	79,189
Culture and recreation	1,461,860	1,655,416	-	-	1,461,860	1,655,416
Interest	167,307	162,616	-	-	167,307	162,616
Water	-	-	2,029,326	2,155,381	2,029,326	2,155,381
Sewer	-	-	4,035,107	3,981,567	4,035,107	3,981,567
Storm Sewer	-	-	676,131	698,642	676,131	698,642
Landfill Closure	-	-	163,559	259,915	163,559	259,915
Health and Environment	-	-	<u>1,414,767</u>	<u>1,400,357</u>	<u>1,414,767</u>	<u>1,400,357</u>
Total expenses	<u>23,970,295</u>	<u>25,458,167</u>	<u>8,318,890</u>	<u>8,495,862</u>	<u>32,289,185</u>	<u>33,954,029</u>
Change in net position	<u>\$ (114,761)</u>	<u>\$ (1,681,251)</u>	<u>\$ 639,504</u>	<u>\$ 385,209</u>	<u>\$ 524,743</u>	<u>\$ (1,296,042)</u>

Major sources of operating revenues for the City include: Property and state taxes and charges for services.

City of Freeport, Illinois

Management's Discussion and Analysis

Management's Analysis of the City's Overall Financial Position and Results of Operations

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$38,847,896 as of April 30, 2013. This is an increase of \$524,743 from the previous year. The General Fund is the main operating fund of the City. The fund balance of the General Fund as of April 30, 2013 was \$5,906,221. This is an increase of \$216,390 from the previous year.

General Fund Budgetary Comparison

The City adopted the budget in May 2012. The budget for all funds is prepared on the modified accrual basis of accounting. This is the same basis used in budgetary comparisons. This allows for comparability between budget and actual amounts.

In total the General Fund revenues were \$471,677 more than budgeted. General Fund expenses were \$1,784,777 under budget. Not including Inter-Fund Transfers, the General Fund had a net gain of \$204,898 for the fiscal year. Including Inter-Fund Transfers the General Fund had an increase in the fund balance of \$216,390.

Capital Assets/Long-Term Debt

During the fiscal year the City purchased 1 fire truck and a utility vehicle for the Fire Department and 3 vehicles for the Street Department for a total expenditure of \$764,746. (See Note 5 for further information on capital assets.)

The water & sewer utility embarked on a \$20,000,000 project to improve the utility's infrastructure, which is being financed by a low interest loan from the Illinois Environmental Protection Agency. (See Note 6 for additional information on long-term debt.)

Factors or Conditions Impacting Future Periods

We have been placing increased focus on expense management and organizational review and we have noticed increases in our efficiency and productivity from continued organizational structure changes. Also the diversity of our revenue stream has resulted in slight increases in revenue, in spite of challenges in an economy that have not been experienced for decades.

Although challenges still exist, we are cognizant of the need to continue investing in our infrastructure. To this end we are increasing the financial commitment to our roadways, investing \$20,000,000 in our water & sewer utility and are finalizing the strategies to embark on a five year economic development program that will provide the stimulus to perpetuate the forward progress and momentum we are experiencing.

We believe this balanced approach, coupled with the prospects of an uptick in the economy, will prove to be a successful recipe for sustained growth in our region and will enable us to capitalize on emerging opportunities.

City of Freeport, Illinois

Management's Discussion and Analysis

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers and customers with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City of Freeport Finance Director, 524 W. Stephenson Street, Freeport, IL 61032.

Basic Financial Statements

City of Freeport, Illinois

Statement of Net Position

April 30, 2013

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 322,336	\$ 3,042,829	\$ 3,365,165
Investments	7,533,738	77,406	7,611,144
Receivables (net of a \$291,275 allowance):			
Property taxes	3,669,581	-	3,669,581
Accounts	2,795,053	1,224,927	4,019,980
Interest	-	1,382	1,382
Inventories	-	151,886	151,886
Deposits	-	7,100	7,100
Prepaid expenses	597,642	-	597,642
Restricted cash accounts	-	2,443,857	2,443,857
Total current assets	14,918,350	6,949,387	21,867,737
Bond issuance costs	-	206,190	206,190
Deferred charges	-	11,067	11,067
Prepaid interest	332,877	2,731,922	3,064,799
Work in process	-	9,537,254	9,537,254
Capital Assets (net of accumulated depreciation):			
Buildings	7,743,019	16,560,589	24,303,608
Infrastructure	5,297,702	27,678,894	32,976,596
Equipment	188,580	2,605,529	2,794,109
Vehicles	1,789,235	-	1,789,235
Total noncurrent assets	15,351,413	59,331,445	74,682,858
Total assets	30,269,763	66,280,832	96,550,595

Liabilities

Current liabilities:				
Accounts payable	606,852	2,161,449		2,768,301
Accrued payroll	246,112	49,723		295,835
Deposits and escrow amounts	-	619,907		619,907
Unearned grant revenue	139,056	-		139,056
Deferred revenue	3,669,581	122,429		3,792,010
Accrued interest	23,877	351,012		374,889
Current portion long term debt	384,336	846,794		1,231,130
Total current liabilities	5,069,814	4,151,314		9,221,128
Noncurrent liabilities:				
General obligation bonds payable	3,154,115	21,130,249		24,284,364
Market premium on bonds payable	-	27,262		27,262
Deferred gain	125,595	1,013,445		1,139,040
Notes payable	384,825	10,500,309		10,885,134
Capital leases	272,242	-		272,242
Net pension obligation	5,042,525	-		5,042,525
Net OPEB obligation	3,733,617	-		3,733,617
Accrued compensated absences	445,489	130,763		576,252
Landfill closure liability	-	2,521,135		2,521,135
Total noncurrent liabilities	13,158,408	35,323,163		48,481,571
Total liabilities	18,228,222	39,474,477		57,702,699
Net investment in capital assets	10,823,018	23,904,914		34,727,932
Restricted	1,932,709	2,443,857		4,376,566
Unrestricted	(714,186)	457,584		(256,602)
Total net position	\$ 12,041,541	\$ 26,806,355		\$ 38,847,896

See Accompanying Notes to Financial Statements.

City of Freeport, Illinois

Statement of Activities

Year ended April 30, 2013

<i>Functions/Programs</i>	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 9,952,735	\$ 140,873	\$ 1,527,973	\$ -
Public safety	6,955,252	842,302	241,878	-
Judiciary and legal	193,822	12,701	-	-
Public works	5,182,830	413,703	609,730	-
Social services	56,489	-	-	-
Culture and recreation	1,461,860	26,535	26,292	-
Interest	167,307	-	-	-
Total governmental activities	\$ 23,970,295	\$ 1,436,114	\$ 2,405,873	\$ -
Business-type activities:				
Water	\$ 2,029,326	\$ 2,962,342	\$ -	\$ -
Sewer	4,035,107	3,570,555	-	-
Storm Sewer	676,131	697,854	-	-
Landfill Closure	163,559	264,744	-	-
Health and Environment	1,414,767	1,442,239	-	-
Total business-type activities	\$ 8,318,890	\$ 8,937,734	\$ -	\$ -

General revenues:

Taxes:

Property taxes

State taxes

Miscellaneous taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning, as restated

Net position - ending

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (8,283,889)	\$ -	\$ (8,283,889)
(5,871,072)	-	(5,871,072)
(181,121)	-	(181,121)
(4,159,397)	-	(4,159,397)
(56,489)	-	(56,489)
(1,409,033)	-	(1,409,033)
(167,307)	-	(167,307)
<hr/>		
(20,128,308)	-	(20,128,308)
<hr/>		
-	933,016	933,016
-	(464,552)	(464,552)
-	21,723	21,723
-	101,185	101,185
-	27,472	27,472
<hr/>		
-	618,844	618,844
<hr/>		
4,726,952	-	4,726,952
12,446,775	-	12,446,775
1,961,831	-	1,961,831
11,341	360	11,701
866,648	20,300	886,948
<hr/>		
20,013,547	20,660	20,034,207
<hr/>		
(114,761)	639,504	524,743
12,156,302	26,166,851	38,323,153
<hr/>		
\$ 12,041,541	\$ 26,806,355	\$ 38,847,896

City of Freeport, Illinois

Statement of Assets, Liabilities and Fund Balances Governmental Funds

April 30, 2013

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 152,656	\$ 154,802	\$ 307,458
Investments	3,454,313	4,015,413	7,469,726
Receivables, net of allowances			
Property tax	2,335,537	1,334,044	3,669,581
Other	575,541	734,207	1,309,748
Due from other governments	1,473,516	-	1,473,516
Due from other funds	400,802	159,081	559,883
Prepaid expenses	565,287	8,034	573,321
Total assets	\$ 8,957,652	\$ 6,405,581	\$ 15,363,233
Liabilities and Fund Balances			
Current liabilities			
Accounts payable	\$ 187,521	\$ 304,331	\$ 491,852
Accrued payroll	230,236	15,876	246,112
Due to other funds	159,081	400,802	559,883
Unearned grant revenue	139,056	-	139,056
Deferred revenue	2,335,537	1,334,044	3,669,581
Total liabilities	3,051,431	2,055,053	5,106,484
Fund balances:			
Nonspendable	565,287	3,840	569,127
Restricted	-	1,932,709	1,932,709
Committed	211,225	2,406,748	2,617,973
Assigned	-	7,231	7,231
Unassigned	5,129,709	-	5,129,709
Total fund balances	5,906,221	4,350,528	10,256,749
Total liabilities and fund balances	\$ 8,957,652	\$ 6,405,581	\$ 15,363,233

City of Freeport, Illinois

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

April 30, 2013

Total fund balances - governmental funds	\$ 10,256,749
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$29,804,412 and the accumulated depreciation is \$14,785,876.	15,018,536
Bond issuance costs and prepaid interest used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. This is the amount of bond issuance costs and prepaid interest.	332,877
Internal services funds are used to charge the costs in insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	-
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(13,566,621)
Total net position - governmental activities	\$ 12,041,541

City of Freeport, Illinois

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year ended April 30, 2013

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 15,503,948	\$ 2,489,722	\$ 17,993,670
Fees	1,255,919	514,063	1,769,982
Intergovernmental	175,037	3,047,256	3,222,293
Interest	4,639	6,553	11,192
Other	205,666	98,575	304,241
Total revenues	17,145,209	6,156,169	23,301,378
Expenditures			
Current:			
General government	7,737,375	1,812,327	9,549,702
Public safety	7,096,481	195,759	7,292,240
Judiciary and legal	193,822	-	193,822
Public works	1,429,783	2,351,959	3,781,742
Social services	56,489	-	56,489
Culture and recreation	166,885	1,152,903	1,319,788
Capital outlay	259,476	527,137	786,613
Debt service	-	876,307	876,307
Total expenses	16,940,311	6,916,392	23,856,703
Excess (deficiency) of revenues over expenses	204,898	(760,223)	(555,325)
Other Financing Sources (Uses)			
Sale of fixed assets	-	31,445	31,445
Debt proceeds	-	1,427,410	1,427,410
Premium on bonds issued	-	8,724	8,724
Discount on bonds issued	-	(6,120)	(6,120)
Payment on refunded bonds	-	(400,000)	(400,000)
Transfers in	335,442	486,401	821,843
Transfers out	(323,950)	(497,893)	(821,843)
Total other financing sources and uses	11,492	1,049,967	1,061,459
Net change in fund balances	216,390	289,744	506,134
Fund balances - beginning	5,689,831	4,060,784	9,750,615
Fund balances - ending	\$ 5,906,221	\$ 4,350,528	\$ 10,256,749

City of Freeport, Illinois

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

For the year ended April 30, 2013

Excess (deficiency) of revenues received and other sources over (under)
expenditures disbursed and other uses - Governmental funds \$ 506,134

Amounts reported for governmental activities in the statement of activities
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 \$(807,696) exceeds depreciation expense \$(802,344) in the period. 5,352

Accrued compensated absences are recorded as a liability in the governmental
activities. However, these amounts are expensed when paid in the governmental
funds. This is the amount that was expensed in the governmental activities in
the period. (25,354)

Debt proceeds are reported in governmental funds as other financing sources.
However, the amount is recorded as a liability in the statement of net position.
This is the amount of debt proceeds in the period. (1,427,410)

Debt payments are reported in governmental funds as expenditures. However,
only the interest on debt is recorded in the statement of activities. This is the
amount of debt payments in the period. 757,226

The increase in the net pension and OPEB obligations recorded on the government-
wide statements are not recorded in the governmental funds because it does not
affect current expenditures. This is the increase in the period. 69,291

Change in net position of governmental activities \$ (114,761)

City of Freeport, Illinois

Statement of Net Position - Proprietary Funds

April 30, 2013

Assets	Business-type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
	Water Department	Sewer Department	Storm Sewer	Non-Major Funds	Total		
Current assets:							
Cash	\$ 3,040,811	\$ 843	\$ 1,174	\$ 1	\$ 3,042,829	\$ 14,878	
Investments	-	-	-	77,406	77,406	64,012	
Receivables, net of a \$291,275 allowance:							
Accounts	543,820	587,121	93,986	-	1,224,927	11,789	
Interest	252	1,130	-	-	1,382	-	
Due from other funds	860,000	-	-	372,276	1,232,276	-	
Inventories	17,975	133,911	-	-	151,886	-	
Deposits	6,740	360	-	-	7,100	-	
Prepaid expenses	-	-	-	-	-	24,321	
Restricted cash accounts:							
Revolving fund	-	1,663	-	-	1,663	-	
Bond and interest	-	773,723	745,283	-	1,519,006	-	
Capital improvements	832,135	91,053	-	-	923,188	-	
Total current assets	5,301,733	1,589,804	840,443	449,683	8,181,663	115,000	
Noncurrent assets:							
Bond issuance costs	-	115,027	91,163	-	206,190	-	
Prepaid interest & market discount	-	1,892,960	838,962	-	2,731,922	-	
Property, plant and equipment (net of accumulated depreciation)	17,143,299	30,772,640	8,466,327	-	56,382,266	-	
Deferred charges	11,067	-	-	-	11,067	-	
Total noncurrent assets	17,154,366	32,780,627	9,396,452	-	59,331,445	-	
Total assets	22,456,099	34,370,431	10,236,895	449,683	67,513,108	115,000	

Liabilities

Current liabilities:									
Accounts payable	74,385	1,916,988	7,450	162,626	2,161,449	115,000			
Accrued payroll	19,292	29,179	1,252	-	49,723	-			
Due to other funds	372,276	310,000	550,000	-	1,232,276	-			
Deposits and escrow amounts	618,382	1,525	-	-	619,907	-			
Deferred revenue	-	63,000	20,037	39,392	122,429	-			
Accrued interest payable	-	246,031	104,981	-	351,012	-			
Current portion long term debt	-	117,259	698,446	31,089	846,794	-			
Total current liabilities	1,084,335	2,683,982	1,382,166	233,107	5,383,590	115,000			

Noncurrent liabilities:

Landfill closure liability	-	-	-	2,521,135	2,521,135	-			
Deferred gain	-	520,139	493,306	-	1,013,445	-			
Accrued compensated absences	47,961	79,890	2,912	-	130,763	-			
Note payable	5,092,532	5,202,187	-	205,590	10,500,309	-			
General obligation bonds payable	-	13,644,319	7,485,930	-	21,130,249	-			
Market premium on bonds payable	-	3,385	23,877	-	27,262	-			
Total noncurrent liabilities	5,140,493	19,449,920	8,006,025	2,726,725	35,323,163	-			
Total liabilities	6,224,828	22,133,902	9,388,191	2,959,832	40,706,753	115,000			

Net Position

Net investment in capital assets	12,050,767	11,808,875	281,951	(236,679)	23,904,914	-			
Restricted due to bond ordinance	832,135	866,439	745,283	-	2,443,857	-			
Unrestricted	3,348,369	(438,785)	(178,530)	(2,273,470)	457,584	-			
Total net position	\$ 16,231,271	\$ 12,236,529	\$ 848,704	\$ (2,510,149)	\$ 26,806,355	\$ -			

City of Freeport, Illinois

Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds

Year ended April 30, 2013

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	Water Department	Sewer Department	Storm Sewer	Non-Major Funds	Total	
Operating revenues						
Charges for services	\$ 2,962,342	\$ 3,570,555	\$ 697,854	\$ 1,706,983	\$ 8,937,734	\$ 3,797,416
Operating expenses:						
Operating	1,678,286	2,525,928	75,749	1,578,326	5,858,289	3,797,565
Depreciation	351,040	837,291	223,284	-	1,411,615	-
Total operating expenses	2,029,326	3,363,219	299,033	1,578,326	7,269,904	3,797,565
Operating income (loss)	933,016	207,336	398,821	128,657	1,667,830	(149)
Nonoperating revenues (expenses)						
Interest income	75	102	71	112	360	149
Interest and fiscal charges	-	(671,888)	(377,098)	-	(1,048,986)	-
Other revenue	-	20,300	-	-	20,300	-
Total nonoperating revenues	75	(651,486)	(377,027)	112	(1,028,326)	149
Net income (loss)	933,091	(444,150)	21,794	128,769	639,504	-
Net position - April 30, 2012	15,298,180	12,680,679	826,910	(2,638,918)	26,166,851	-
Net position - April 30, 2013	\$ 16,231,271	\$ 12,236,529	\$ 848,704	\$ (2,510,149)	\$ 26,806,355	\$ -

See Accompanying Notes to Financial Statements.

City of Freeport, Illinois

Statement of Cash Flows Proprietary Funds

Year ended April 30, 2013

Business-type Activities-Enterprise Funds

	Business-type Activities-Enterprise Funds			Total	Governmental Activities- Internal Service Funds
	Water Department	Sewer Department	Storm Sewer		
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 3,465,672	\$ 3,454,524	\$ 786,432	\$ 1,695,147	\$ 9,401,775
Payments to suppliers	(1,194,388)	(1,096,622)	(23,379)	(1,683,282)	(3,997,671)
Payments to employees	(630,005)	(930,002)	(45,528)	-	(1,605,535)
	1,641,279	1,427,900	717,525	11,865	3,798,569
Net cash provided by (used in) operations					14,876
Cash Flows from Investing Activities					
Purchase of investments	(692,523)	(69,931)	(640,071)	(1,817)	-
Sale of investments	177	2,197	595,803	20,208	(147)
Interest received	77	113	71	112	149
Net cash provided by (used in) investing activities	(692,269)	(67,621)	(44,197)	18,503	(785,584)
					2

**Cash Flows From Capital and Related
Financing Activities**

Interest paid	(615,873)	(375,901)	-	(991,774)	-
Proceeds from long term debt	4,268,653	3,957,552	843,127	9,069,332	-
Principal payments on long term debt	-	(595,607)	(1,063,029)	(1,689,103)	-
Purchase of property and equipment	(4,367,048)	(4,109,249)	(79,635)	(8,555,932)	-
Net cash provided by (used in) capital and related financing activities	(98,395)	(1,363,177)	(675,438)	(2,167,477)	-
Net increase (decrease) in cash and cash equivalents	850,615	(2,898)	(2,110)	845,508	14,878
Beginning cash and cash equivalents	2,190,196	3,741	3,284	2,197,321	-
Ending cash and cash equivalents	\$ 3,040,811	\$ 843	\$ 1,174	\$ 3,042,829	\$ 14,878

City of Freeport, Illinois

Statement of Cash Flows (Continued) Proprietary Funds

Year ended April 30, 2013

	Business-type Activities-Enterprise Funds					Total	Governmental Activities- Internal Service Funds
	Water Department	Sewer Department	Storm Sewer	Non-Major Funds			
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	\$ 933,016	\$ 207,336	\$ 398,821	\$ 128,657	\$ 1,667,830	\$	(149)
Adjustments to reconcile operating income to net cash provided by (used in) operations:							
Depreciation	351,040	837,291	223,284	-	1,411,615	-	-
Changes in assets and liabilities:							
Accounts receivable	(9,908)	(95,856)	(1,422)	24,216	(82,970)	86,924	-
Inventory	715	-	-	-	715	-	-
Due from other funds	505,000	-	-	(36,937)	468,063	-	-
Deposits	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	722	-
Accounts payable	(188,543)	1,096,978	6,413	(5,601)	909,247	(37,500)	-
Accrued payroll	2,519	3,955	302	-	6,776	-	-
Accrued compensated absences	2,265	(6,629)	127	-	(4,237)	-	-
Deposits and escrow amounts	8,238	-	-	-	8,238	-	-
Deferred revenue	-	(20,175)	-	885	(19,290)	-	-
Other liabilities	-	-	-	(99,355)	(99,355)	-	-
Due to other funds	36,937	(595,000)	90,000	-	(468,063)	(35,121)	-
Net cash provided by (used in) operations	\$ 1,641,279	\$ 1,427,900	\$ 717,525	\$ 11,865	\$ 3,798,569	\$	14,876

See Accompanying Notes to Financial Statements.

City of Freeport, Illinois

Statement of Fiduciary Net Position Fiduciary Funds

April 30, 2013

Assets	Private- Purpose Trust Funds	Pension Trust Funds
Cash	\$ 78,959	\$ 591,755
Investments	40,273	50,389,360
Receivables, net of allowance for uncollectible:		
Loan	361,767	-
Interest	-	184,034
Total assets	480,999	51,165,149
<hr/> Liabilities <hr/>		
Accounts payable	406	-
<hr/> Net Position <hr/>		
Held in trust for pension benefits and other purposes	\$ 480,593	\$ 51,165,149

City of Freeport, Illinois

Statement of Changes in Fiduciary Net Position Fiduciary Funds

Year ended April 30, 2013

	Private- Purpose Trust Funds	Pension Trust Funds
Additions		
Foreign fire insurance	\$ 26,897	\$ -
Contributions-employer taxes	-	2,435,060
Contributions-employee	-	554,334
Investment income	15,395	5,140,807
Total additions	42,292	8,130,201
Deductions		
Benefits and refunds	-	3,728,262
Other charges and services	12,222	200,150
Total deductions	12,222	3,928,412
Net increase	30,070	4,201,789
Net position - beginning	450,523	46,963,360
Net position - ending	\$ 480,593	\$ 51,165,149

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Introduction

The financial statements of the City of Freeport (the “government”) have been prepared in conformity with the accounting principles generally accepted in the United States (GAAP) as applied to government units. 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 government 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

The government is a city governed by an elected eight-member City Council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. In evaluating how to define the government, for financial reporting purposes, the government has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

The government is considered to be a primary government, since it is legally separate and financially independent. This report includes all of the funds of the government. It includes all activities considered to be part of (controlled by or dependent on) the government as set forth under the GAAP criteria.

Blended Component Unit. The Library serves all the citizens of the City and is governed by the Library Board of Trustees. The budget and appropriation ordinance is approved by the Library Board and City Council, and the legal liability for any Library debt remains with the City. The Library is reported as a Special Revenue Fund.

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 and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are 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.

Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. 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 and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The government reports the following major enterprise funds:

The *water department fund* accounts for the costs related to the operation of the City's water system. Funding is provided by user fees.

The *sewer department fund* accounts for the costs related to the operation of the City's sewer system. Funding is provided by user fees.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

The *storm sewer fund* accounts for the costs related to the operation of the City's storm sewer system. Funding is provided by user fees.

Additionally, the government reports the following fund types:

Internal service funds account for claims for health insurance provided to other departments or agencies of the government, or to other governments on a cost-reimbursement basis.

The *pension trust funds* account for the activities of the Public Safety Employees' Pension Plan, which accumulates resources for pension benefit payments to qualified public safety employees.

The *private purpose trust funds* account for the activities of the foreign fire insurance and revolving loan funds which are amounts held by the City to be spent for qualified fire activities and held for economic development loans, respectively.

During the course of operations the government 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 and internal service 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.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the government gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The government considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

City of Freeport, 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 accrual basis of accounting.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. 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. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

Excess of expenditures over appropriations

For the year ended April 30, 2013, no fund's expenditures exceeded appropriations.

Assets, liabilities, and net position/fund balance

Cash and cash equivalents

The government'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.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Investments

Statutes authorize the government to invest in: 1) securities guaranteed by the full faith and credit of the United States of America; 2) deposits or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act; 3) short-term obligations of corporations organized in the United States which meet other restrictions as defined in Illinois Compiled Statutes Chapter 35, Paragraph 902, as amended; 4) money market funds registered under the Investment Company Act of 1940; 5) short-term discount obligations of the Federal National Mortgage Association; 6) shares or other forms of securities legally issuable by savings and loan associations; 7) various share accounts of a credit union chartered under the laws of the State of Illinois or the laws of the United States provided the principal office of any such credit union is located within the State of Illinois; 8) a Public Treasurer's Investment Pool created under Section 17 of "An Act to revise the law in relation to the State Treasurer", approved November 23, 1873, as amended. Bank and savings and loan investments may only be made in institutions which are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

Investments for the government are 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.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

City of Freeport, 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, except for vehicles, buildings and infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$15,000 and an estimated useful life in excess of two years. For vehicles the same estimated minimum useful life is used (in excess of two years), but only those vehicles that cost more than \$15,000 are reported as capital assets. For buildings the same estimated minimum useful life is used (in excess of two years), but only those buildings that cost more than \$50,000 are reported as capital assets. For infrastructure assets the same estimated minimum useful life is used (in excess of two years), but only those infrastructure projects that cost more than \$100,000 are reported as capital assets.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government 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. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	50
Infrastructure	50
Equipment	5 - 20
Vehicles	5 - 15

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Net position flow assumption

Sometimes the government 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 and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted to have been depleted before unrestricted is applied.

Fund balance flow assumptions

Sometimes the government 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 government'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.

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 government 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 government's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the government 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.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Fund balance policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The city council may 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 2011 property tax levy.

The 2012 levy was passed by the Board on December 17, 2012. Property taxes attach as an enforceable lien on property as of January 1 and are generally payable in two installments in June and September. The government receives significant distributions of tax receipts within one month of these due dates. Amounts related to the 2012 levy are shown as property taxes receivable and deferred revenue.

City of Freeport, Illinois

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Vacation

Material vested or accumulated vacation leave, including related social security, Medicare, and the Government's share of pension costs for IMRF, that would be expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Material amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources would be reported as a non-current liability in the government-wide statements only.

Sick Leave

Accumulated sick leave lapses when employees leave the employ of the government and, upon separation from service, no monetary obligation exists.

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 and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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.

Note 2 Stewardship, Compliance and Accountability

Violations of legal or contractual provisions

No violations occurred for the year ended April 30, 2013.

Deficit fund equity

The following funds had a deficit in fund balance/retained earnings:

<u>Fund</u>	<u>Deficit Balance</u>
Landfill Closure Fund	<u>\$2,510,149</u>

City of Freeport, Illinois

Notes to Financial Statements

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 government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of April 30, 2013, the government's bank balance was \$9,467,060 and \$0 of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the government's name.

For financial statement purposes, the City shows certificates of deposits and money market accounts as temporary cash investments.

Note 4 Investments

As of April 30, 2013, the government had the following investments:

	Fair Value
<i>Governmental Activities:</i>	
Investments in State Investment Pool	\$4,966,039
U.S. Government Obligations	<u>51,140</u>
Total	<u>\$5,017,179</u>
<i>Pension Trust Funds:</i>	
U.S. Government Obligations	\$ 9,605,966
Investments in State Investment Pool	9,370
Corporate Bonds	11,809,167
State and Local Obligations	606,609
Equity Mutual Funds	24,917,118
Common Stock	<u>3,441,130</u>
Total	<u>\$50,389,360</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 government has no specific policy on the interest rate risk at year-end.

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

City of Freeport, Illinois

Notes to Financial Statements

Note 4 Investments (Continued)

Interest Rate Risk (Continued):

	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13-60 Months</u>	<u>60+ Months</u>	
<i>Governmental activities:</i>				
Investments in State Investment Pool	\$4,966,039	\$ -	\$ -	\$4,966,039
U.S. Government Obligations	<u>-</u>	<u>16,607</u>	<u>34,533</u>	<u>51,140</u>
Total	<u>\$4,966,039</u>	<u>\$16,607</u>	<u>\$34,533</u>	<u>\$5,017,179</u>
<i>Pension Trust Funds:</i>				
U.S. Government Obligations	\$ 877,396	\$3,299,514	\$ 5,429,056	\$ 9,605,966
Investments in State Investment Pool	9,370	-	-	9,370
Corporate Bonds	1,466,281	4,799,302	5,543,584	11,809,167
State and Local Obligations	<u>50,551</u>	<u>144,695</u>	<u>411,363</u>	<u>606,609</u>
Total	<u>\$2,403,598</u>	<u>\$8,243,511</u>	<u>\$11,384,003</u>	<u>\$22,031,112</u>

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:

	<u>Total as of April 30, 2013</u>	<u>AAA</u>	<u>Unrated</u>
<i>Governmental activities:</i>			
Investments in State Investment Pool	\$4,966,039	\$4,966,039	\$ -
U.S. Government Obligations	<u>51,140</u>	<u>-</u>	<u>51,140</u>
Total	<u>\$5,017,179</u>	<u>\$4,966,039</u>	<u>\$51,140</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 4 Investments (Continued)

Credit Risk (Continued):

	<u>Total as of</u> <u>April 30, 2013</u>	<u>AAA</u>	<u>Unrated</u>
<i>Pension Trust Funds:</i>			
Investments in State			
Investment Pool	\$ 9,370	\$9,370	\$ -
Corporate Bonds	11,809,167 *	-	-
State and Local Obligations	606,609 *	-	-
Equity Mutual Funds	24,917,118	-	24,917,118
Common Stock	3,441,130	-	3,441,130
U.S. Government Obligations	<u>9,605,966</u>	<u>-</u>	<u>9,605,966</u>
 Total	 <u>\$50,389,360</u>	 <u>\$9,370</u>	 <u>\$37,964,214</u>

* See Table 1 below

<i>Rating</i>	<i>Rating Agency</i>	
A	Standard & Poor's	\$2,074,667
A-	Standard & Poor's	2,029,834
A+	Standard & Poor's	721,581
AA	Standard & Poor's	475,021
AA-	Standard & Poor's	252,283
AA+	Standard & Poor's	283,915
AAA	Standard & Poor's	103,782
BBB	Standard & Poor's	805,289
BBB-	Standard & Poor's	180,473
BBB+	Standard & Poor's	547,768
A1	Moody's	675,450
A2	Moody's	1,195,457
A3	Moody's	939,543
Aa1	Moody's	51,000
Aa3	Moody's	282,776
Aaa	Moody's	184,142
Baa1	Moody's	541,292
Baa2	Moody's	808,947
Baa3	Moody's	97,889
Not Rated	Moody's	<u>164,667</u>
	Total	<u>\$12,415,776</u>

Concentration of credit risk. The government's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the government's total investments.

City of Freeport, Illinois

Notes to Financial Statements

Note 4 Investments (Continued)

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of April 30, 2013 there are no investments with custodial credit risk in that all of its investments are insured.

Foreign Currency Risk. The government has no foreign currency risk for investments at year end.

Note 5 Property, Plant and Equipment:

The governmental activities capital asset activity for the year ended April 30, 2013 is as follows:

	<u>Balance May 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance April 30, 2013</u>
Capital assets being depreciated:				
Buildings	\$12,272,835	\$ -	\$ -	\$12,272,835
Infrastructure	9,069,495	-	-	9,069,495
Equipment	1,698,391	42,950	-	1,741,341
Vehicles	<u>5,955,995</u>	<u>764,746</u>	<u>-</u>	<u>6,720,741</u>
 Total capital assets being depreciated	 <u>28,996,716</u>	 <u>807,696</u>	 <u>-</u>	 <u>29,804,412</u>
Less accumulated depreciation for:				
Buildings	4,320,976	208,840	-	4,529,816
Infrastructure	3,590,403	181,390	-	3,771,793
Equipment	1,495,191	57,570	-	1,552,761
Vehicles	<u>4,576,962</u>	<u>354,544</u>	<u>-</u>	<u>4,931,506</u>
 Total accumulated depreciation	 <u>13,983,532</u>	 <u>802,344</u>	 <u>-</u>	 <u>14,785,876</u>
 Governmental activities capital assets, net	 <u>\$15,013,184</u>	 <u>\$ 5,352</u>	 <u>\$ -</u>	 <u>\$15,018,536</u>

The business-type activities capital asset activity for the year ended April 30, 2013 is as follows:

City of Freeport, Illinois

Notes to Financial Statements

Note 5 Property, Plant and Equipment (Continued):

	<u>Balance May 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance April 30, 2013</u>
Capital assets not being depreciated:				
Work in process	\$ 2,456,818	\$8,205,773	\$1,125,337	\$ 9,537,254
Capital assets being depreciated:				
Buildings	23,830,109	1,031,748	-	24,861,857
Infrastructure	40,741,083	443,748	-	41,184,831
Equipment	<u>5,756,170</u>	<u>-</u>	<u>-</u>	<u>5,756,170</u>
Total capital assets being depreciated	<u>70,327,362</u>	<u>1,475,496</u>	<u>-</u>	<u>71,802,858</u>
Less accumulated depreciation for:				
Buildings	7,753,463	547,805	-	8,301,268
Infrastructure	12,750,172	755,765	-	13,505,937
Equipment	<u>3,042,596</u>	<u>108,045</u>	<u>-</u>	<u>3,150,641</u>
Total accumulated depreciation	<u>23,546,231</u>	<u>1,411,615</u>	<u>-</u>	<u>24,957,846</u>
Capital assets being depreciated, net	<u>46,781,131</u>	<u>63,881</u>	<u>-</u>	<u>46,845,012</u>
Business-type activities capital assets, net	<u>\$49,237,949</u>	<u>\$8,269,654</u>	<u>\$1,125,337</u>	<u>\$56,382,266</u>

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

Governmental activities:

General government	\$ 15,147
Public safety	183,076
Public works	462,049
Culture and recreation	<u>142,072</u>
Total depreciation expense, governmental activities	<u>\$802,344</u>

Business-type activities:

Water Department	\$ 351,040
Sewer Department	837,291
Storm Sewer Department	<u>223,284</u>
Total depreciation expense, business-type activities	<u>\$1,411,615</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt

Lease Obligations

The City was obligated under certain leases accounted for as capital leases.

On March 30, 2012, the City entered into a capital lease for the purchase of a Fire Truck in the amount of \$445,000. The City agreed to pay 20 quarterly payments of \$23,422 at an interest rate of 1.975% with final payment on March 30, 2017.

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending April 30	<u>Principal</u>	<u>Interest</u>
2014	\$ 87,230	\$ 6,456
2015	88,965	4,721
2016	90,736	2,950
2017	<u>92,541</u>	<u>1,145</u>
Total	<u>\$359,472</u>	<u>\$15,272</u>

Installment Contracts/Notes Payable

The City enters into installment contracts/notes payable to provide funds for the acquisition of capital assets.

Installment contracts/notes payable currently outstanding included in long-term debt are as follows:

Fund Debt Issue	Balance Retired By	<u>May 1</u>	<u>Additions</u>	<u>Reductions</u>	Balance April 30
US Bank, payable monthly with interest at 5.71% due January 11, 2022	Debt Service	\$ 84,838	\$ -	\$ 6,678	\$ 78,160
US Bank, payable monthly with interest at 5.37%, due January 31, 2022	Debt Service	45,815	-	3,670	42,145
State Bank, payable annually with interest at 5.60%, due July 23, 2013	Debt Service	236,762	-	115,218	121,544

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Installment Contracts/Notes Payable (Continued)

<u>Fund Debt Issue</u>	<u>Balance Retired By</u>	<u>May 1</u>	<u>Additions</u>	<u>Balance Reductions</u>	<u>April 30</u>
US Bank, payable monthly with interest at 2.77%, due April 28, 2020	General/ Landfill Closure	<u>620,216</u>	<u>-</u>	<u>68,386</u>	<u>551,830</u>
		<u>\$987,631</u>	<u>\$ -</u>	<u>\$193,952</u>	<u>\$793,679</u>

Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$203,264	\$ 25,506
2015	84,880	22,346
2016	88,170	19,056
2017	91,597	15,630
2018	95,163	12,063
2019 - 2022	<u>230,605</u>	<u>14,384</u>
Total	<u>\$793,679</u>	<u>\$108,985</u>

IEPA Loan Payable

On November 15, 2011, the City entered into two separate agreements with the Illinois Environmental Protection Agency (IEPA). One agreement was for a loan up to \$9,873,218 where the proceeds would be expended on upgrades to the public water supply loan. The other agreement was for a loan up to \$9,059,782 where the proceeds would be expended on upgrades to the wastewater treatment plan. The City will request reimbursements over the construction period which ends October 17, 2013 for the public water loan and August 18, 2013 for the wastewater treatment loan. If all of the requirements are met for the project, 25% of the loans will be forgiven by the IEPA. The remaining loans will then be repaid in semi-annual payments over 20 years beginning February 18, 2014 and ending August 18, 2033 for the public water loan and December 17, 2013 and ending June 17, 2033 for the wastewater treatment loan. Both loans will be repaid with an interest rate of 1.25%. As of April 30, 2013, the City had borrowed \$5,092,532 against the public water loan and \$5,202,187 against the wastewater treatment loan.

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

General Obligation Bonds

2003 Issue

On June 2, 2003 the City passed an ordinance for the issuance of \$12,750,000 Bond Series of 2003. The purpose of the bonds is to complete storm water projects, fund city's commitment to the new library, and TIF commitment to Raleigh office complex. This bond was refunded with the 2013 issue during the current year.

2004 Issue

On December 15, 2004 the City passed an ordinance for the issuance of \$8,665,000 Bond Series of 2004. The purpose of the bonds is to refund a portion of the 2000 Issue and realize interest savings due to lower interest rates.

2005 Issue

On January 15, 2005 the City passed an ordinance for the issuance of \$5,735,000 Bond Series of 2005. The purpose of the bonds is to refund a portion of the 2000 Issue and realize interest savings due to lower interest rates.

2006 Issue

On December 21, 2006 the City passed an ordinance for the issuance of \$10,000,000 Bond Series of 2006. The purpose of the bonds is to refund a portion of the 2003 Issue and realize interest savings due to lower interest rates.

2013 Issue

On April 23, 2013 the City passed an ordinance for the issuance of \$1,310,000 Bond Series of 2013. The purpose of the bonds is to refund the remaining 2003 Issue and realize interest savings due to lower interest rates.

2013A Issue

On April 23, 2013 the City passed an ordinance for the issuance of \$1,020,000 Bond Series of 2013. The purpose of the bonds is to purchase a new fire station.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

<u>Issue</u>	<u>Fund Debt Retired By</u>	<u>Balances May 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances April 30</u>
\$2,080,000 General Obligation Bond Series 2003, dated July 15, 2003 due in annual installments of \$55,000 to \$150,000 plus interest at 2.00% to 5.50% through January 1, 2029.	Library	\$ 490,000	\$ -	\$ 490,000	\$ -
\$10,070,000 General Obligation Bond Series 2003, dated July 15, 2003 due in annual installments of \$180,000 to \$650,000 plus interest at 2.00% to 5.50% through January 1, 2034.	Storm sewer and sewer	1,100,000	-	1,100,000	-
\$8,665,000 General Obligation Bond Series 2004, dated December 15, 2004 due in annual installments of \$60,000 to \$800,000 plus interest at 2.50% to 4.375% through December 1, 2024	Sewer	8,200,000	-	490,000	7,710,000
\$5,735,000 General Obligation Bond Series 2005, dated January 15, 2005 due in annual installments of \$25,000 to \$1,095,000 plus interest at 2.25% to 4.70% through December 1, 2024	Sewer	5,505,000	-	30,000	5,475,000
\$10,000,000 General Obligation Bond Series 2006, dated December 21, 2006 due in annual installments of \$35,000 to \$645,000 plus interest at 4.00% to 4.20% through January 1, 2034	TIF, Library, Storm Sewer, and Sewer	9,765,000	-	55,000	9,710,000
\$1,310,000 General Obligation Bond Series 2013, dated April 23, 2013 due in annual installments of \$270,000 to \$345,000 plus interest at 2.00% through January 1, 2017	TIF, Library, Storm Sewer, and Sewer	-	1,310,000	-	1,310,000
\$1,020,000 General Obligation Bond Series 2013A, dated April 23, 2013 due in annual installments of \$65,000 to \$85,000 plus interest at 1.00% to 3.15% through January 1, 2028	Fire Capital Improvements	-	1,020,000	-	1,020,000
		<u>\$25,060,000</u>	<u>\$2,330,000</u>	<u>\$2,165,000</u>	<u>\$25,225,000</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 940,000	\$ 999,907
2015	1,030,000	982,224
2016	1,065,000	947,282
2017	1,095,000	913,546
2018	1,160,000	877,124
2019 – 2023	6,515,000	3,678,427
2024 – 2028	7,855,000	2,248,842
2029 – 2033	4,960,000	628,393
2034	<u>605,000</u>	<u>25,410</u>
Total	<u>\$25,225,000</u>	<u>\$11,301,155</u>

Changes in Long-Term Liabilities

During the fiscal year the following changes occurred in long-term debt:

	<u>Balances May 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances April 30</u>
Installment notes	\$ 3,115,608	\$8,166,742	\$ 193,952	\$11,088,398
Capitalized leases	445,000	-	85,528	359,472
General obligation bonds payable	25,060,000	2,330,000	2,165,000	25,225,000
Market premium	24,050	19,328	16,116	27,262
Deferred gain	1,198,719	-	59,679	1,139,040
Net pension obligation	5,405,782	81,896	445,153	5,042,525
Net OPEB obligation	3,439,962	293,655	-	3,733,617
Accrued compensated absences	555,135	21,117	-	576,252
Landfill closure liability	<u>2,620,490</u>	<u>-</u>	<u>99,355</u>	<u>2,521,135</u>
Total	<u>\$41,864,746</u>	<u>\$10,912,738</u>	<u>\$3,064,783</u>	<u>\$49,712,701</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

Legal Debt Margin

The City is a home rule municipality.

Article VII, Section 6(k) of the 1970 Illinois Constitution governs computation of the legal debt margin.

“The General Assembly may limit by law the amount and require referendum approval of debt to be incurred by home rule municipalities, payable from ad valorem property tax receipts; only in excess of the following percentages of the assessed value of its taxable property (2) if its population is more than 25,000 and less than 500,000 an aggregate of one percent...indebtedness which is outstanding on the effective date (July 1, 1971) of this constitution or which is thereafter approved by referendum...shall not be included in the foregoing percentage amounts”.

To date the General Assembly has set no limits for home rule municipalities.

Note 7 Debt Defeasance

In the current year, the City defeased a portion of the 2003 General Obligation bond issue 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 City's government-wide financial statements. This advance refunding was undertaken to reduce total debt service payments over the next 4 years by \$90,508 and resulted in an economic gain of \$87,381.

In the current and prior years, the City defeased a portion of the 2000 and 2003 General Obligation bond issues by creating separate irrevocable trust funds. New debt was 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. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's financial statements. As of April 30, 2013, the amount of defeased debt from the 2000 and 2003 issues outstanding but removed from the City's financial statements amounted to \$22,610,000.

City of Freeport, Illinois

Notes to Financial Statements

Note 8 Conduit Debt

Governmental entities may enter into arrangements whereby a non-governmental entity is able to finance the acquisition of facilities by issuing conduit debt obligations. Conduit debt obligations are therefore certain limited obligation revenue bonds issued by a state or local governmental entity for a specific third party that is not a part of the issuer's financial reporting entity.

The City entered into an agreement described above with Freeport Regional Health Care Foundation on June 16, 2008. \$8,000,000 of Health Care Facilities Revenue Bonds (Freeport Regional Health Care Foundation Project) Series 2008 were issued in the City's name. At the same time a mortgage agreement was signed between the City and Freeport Regional Health Care. Freeport Regional Health Care used the proceeds to build a new hospital facility. The mortgage agreement is set up to cover the payments of the mortgage revenue bonds. At April 30, 2013, there was \$7,330,000 of Health Care Facilities Revenue Bonds (Freeport Regional Health Care Foundation Project) Series 2008 outstanding.

The City has no responsibility for the payment of the debt except for the payments received from Freeport Regional Health Care on the underlying mortgage loan agreement.

Note 9 Solid Waste Landfill Closure and Postclosure Care Costs

The City owns and operated a landfill site that was closed in 2003. State and federal laws require the City to close the landfill and to monitor and maintain the site for thirty subsequent years. The City recognized a portion of the closure and postclosure care costs in each operating period even though actual payouts will occur as the landfill is capped and monitored. As of April 30, 2013, the Government has incurred a liability of \$2,521,135 which represents the estimated costs of capping and monitoring the landfill. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

The City has established an enterprise fund to accumulate assets needed for the actual payout of closure and postclosure care costs. As of April 30, 2013, assets reported on the combined balance sheet which total \$449,683 are held for this purpose.

The City was required by state and federal laws and regulations to make annual contributions to finance the closure and postclosure care costs while the landfill was in operation. The City complied with these requirements until the landfill was closed in 2003. The City expects that future inflation costs will be paid from interest earnings on these annual contributions and transfer station rents with the difference being funded by general fund contributions. The amount of future general fund contributions cannot be determined at this time. The amount will depend on the amount of actual interest earnings and the timing of monitoring costs over the thirty year monitoring period.

City of Freeport, Illinois

Notes to Financial Statements

Note 10 Interfund Assets/Liabilities

At April 30, 2013, the following interfund receivables/payables existed:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General	\$ 400,802	\$ 159,081
Non-major governmental funds	159,081	400,802
Proprietary funds:		
Water	860,000	372,276
Sewer	-	310,000
Storm Sewer	-	550,000
Non-major proprietary funds	<u>372,276</u>	<u>-</u>
	<u>\$1,792,159</u>	<u>\$1,792,159</u>

The purpose of the interfund loans is to fund temporary cash deficits in each of the borrowing funds. The loans will be paid back when sufficient cash amounts exist in those funds.

Note 11 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.

1. 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 City reports prepaid expenses as nonspendable fund balance within different funds for the following purposes:

Nonspendable for General Fund	\$565,287
Nonspendable for Fire Capital Improvements	\$3,840

2. Restricted Fund Balance

The restricted fund balance classification refers to amounts that are subject to outside restrictions, not controlled by the entity. Things such as restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The City has several revenue sources received within different funds that are restricted for the following purposes:

City of Freeport, Illinois

Notes to Financial Statements

Note 11 Fund Balance Reporting (Continued):

2. Restricted Fund Balance (Continued)

Restricted for IMRF	\$ 135,240
Restricted for Streets	351,440
Restricted for Cemetery Care	108,132
Restricted for Tourism Promotion	108,697
Restricted for Grants	-
Restricted for Drug Forfeiture	13,059
Restricted for Downtown T.I.F. District	214,533
Restricted for Lamm Road T.I.F. District	182,929
Restricted for West Ave. T.I.F. District	32,854
Restricted for Burchard Hills T.I.F. District	4,961
Restricted for Public Library	470,558
Restricted for Street & Police Equipment	310,306
Total Restricted	\$ 1,932,709

3. Committed Fund Balance

The committed fund balance classification refers to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the City Council). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of formal action it employed to previously commit those amounts.

The City Council 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 contractual requirements.

The City has the amounts that are committed for the following purposes:

Committed for Future Capital Improvements	\$ 211,225
Committed for Parking Lot Repairs	60,590
Committed for Debt Service	202,537
Committed for Fire Dept. Equipment	2,143,621
Total Committed	\$ 2,617,973

City of Freeport, Illinois

Notes to Financial Statements

Note 11 Fund Balance Reporting (Continued)

4. Assigned Fund Balance

The assigned fund balance classification refers to amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. Intent may be expressed by (a) the City Council itself or (b) the finance committee when the City Council has delegated the authority to assign amounts to be used for specific purposes. The City has several revenue sources received within different funds that are restricted for the following purposes:

Assigned for Fire Related Safety Programs	<u>\$7,231</u>
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5. 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 in the amount of \$5,129,709.

6. 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 12 Restricted Net Position

The following restricted net position existed as of April 30, 2013:

Business-type Activities/Enterprise:

Water Fund:	
Reserved due to bond ordinance	<u>\$832,135</u>
Sewer Fund:	
Reserved due to bond ordinance	<u>\$866,439</u>
Storm Sewer Fund:	
Reserved due to bond ordinance	<u>\$745,283</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 12 Restricted Net Position (Continued):

Governmental Activities:

Restricted for IMRF	\$	135,240
Restricted for Streets		351,440
Restricted for Cemetery Care		108,132
Restricted for Tourism Promotion		108,697
Restricted for Grants		-
Restricted for Drug Forfeiture		13,059
Restricted for Downtown T.I.F. District		214,533
Restricted for Lamm Road T.I.F. District		182,929
Restricted for West Ave. T.I.F. District		32,854
Restricted for Burchard Hills T.I.F. District		4,961
Restricted for Public Library		470,558
Restricted for Street & Police Equipment		310,306

Total Restricted	\$	1,932,709
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Fiduciary:

Private-Purpose Trust Funds		
Reserved for revolving loan	\$	440,726
Reserved for foreign fire insurance		39,867

Total Private-Purpose Trust Funds	\$	480,593
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Pension Trust Funds		
Reserved for Police Pension	\$	19,642,510
Reserved for Fire Pension		31,522,639

Total Pension Trust Funds	\$	51,165,149
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Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

City of Freeport, Illinois

Notes to Financial Statements

Note 13 Transfers

Below are the interfund transfers as of April 30, 2013:

	<u>Operating Transfers in</u>	<u>Operating Transfers out</u>
Governmental Funds:		
General	\$335,442	\$(323,950)
Non-Major Governmental Funds	<u>486,401</u>	<u>(497,893)</u>
Total all funds	<u>\$821,843</u>	<u>\$(821,843)</u>

The purpose of these transfers was to subsidize special revenue funds and to reimburse the General fund for administrative services provided to the Public Library Fund.

Note 14 Risk Management

The City 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. These risks are covered by commercial insurance purchased from independent third parties.

The deductible in effect through these policies as of April 30, 2013 was \$500 for "normal" claims and \$25,000 for catastrophes. Settled claims from these risks have not exceeded commercial insurance coverage for the past five fiscal years.

The City is exposed to various risks of loss related to illness of employees. The City is self-insured for health insurance risks and has established a risk financing fund, Health Care Fund (the Fund), for these risks. It is accounted for as an internal service fund where assets are set aside for claim settlements. Under this program, the Fund provides coverage up to a maximum of \$90,000 for each health claim. The City purchases commercial insurance for claims in excess of the coverages provided by the Fund. During fiscal year 2013, five of the City's claims exceeded its stop loss limits and it received \$362,275 in reinsurance settlements. Settled claims in each of the prior four fiscal years did not exceed commercial coverage.

All funds of the City participate and make payments to the Fund based upon actuarial estimates of the amounts needed to pay prior and current-year claims. Liabilities of the Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and societal factors. Changes in the balances of claims liabilities during the past fiscal year are as follows:

City of Freeport, Illinois

Notes to Financial Statements

Note 14 Risk Management

<u>Beginning of Year Ending June 30</u>	<u>Current Year Claims and Fiscal Year Liability</u>	<u>Changes in Estimates</u>	<u>Balance Claim Payments</u>	<u>at Fiscal Year End</u>
2012	\$235,000	\$3,027,248	\$3,109,748	\$152,500
2013	\$152,500	\$3,432,963	\$3,470,463	\$115,000

Note 15 Pension Plan

Plan Description

The City'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 City's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. 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 financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

Funding Policy

As set by statute, the City's Regular plan members are required to contribute 4.5 percent 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 City's contribution rate for calendar year 2012 used by the employer was 10.30 percent of annual covered payroll. The City annual required contribution rate for calendar year 2012 was 12.05. The City 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 the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost

For calendar year ending December 31, 2012, the City's actual contributions for pension cost for the Regular were \$456,674. Its required contribution for calendar year 2012 was \$534,265.

The City's net pension obligation to the IMRF Plan as of April 30, 2013 was as follows:

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Annual Pension Cost (Continued)

Annual required contribution	\$534,265
Interest adjustment	13,468
Adjustment to amortize unfunded liability	<u>(9,163)</u>
Annual pension cost	538,570
Contributions made	<u>456,674</u>
Increase (decrease) in net pension obligation	81,896
Net pension obligation, beginning	<u>179,569</u>
Net pension obligation, ending	<u><u>\$261,465</u></u>

Three-Year Trend Information for the Regular Plan

<u>Calendar Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC (Contributed)</u>	<u>Net Pension Obligation</u>
12/31/12	\$538,570	85%	\$261,465
12/31/11	499,873	84%	179,569
12/31/10	474,234	79%	99,589

The required contribution for 2012 was determined as part of the December 31, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2010 included (a) 7.5% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of the City's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The City's Regular plan's unfunded actuarial accrued liability at December 31, 2010 is being amortized as a level percentage of projected payroll on an open 30 year basis.

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the Regular plan was 77.33 percent funded. The actuarial accrued liability for benefits was \$13,073,349 and the actuarial value of assets was \$10,110,237, resulting in an underfunded actuarial accrued liability (UAAL) of \$2,963,112. The covered payroll for calendar year 2012 (annual payroll of active employees covered by the plan) was \$4,433,733 and the ratio of the UAAL to the covered payroll was 67 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Plan Descriptions and Provisions

Police Pension

Police sworn 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 City accounts for the plan as a pension trust fund.

At May 1, 2012, the Police Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	53
Current employees	
Vested	31
Nonvested	<u>19</u>
Total	<u>103</u>

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. 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.

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Plan Descriptions and Provisions (Continued)

Police Pension (Continued)

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.

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 City 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.

On March 30, 2011, the actuarial value of the pension fund’s assets shall be equal to the market value of the assets as of that date. In determining the actuarial value of assets after March 30, 2011, any actuarial gains or losses from investment returns incurred in a fiscal year shall be recognized in equal amounts over the five-year period following that fiscal year.

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.

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Plan Descriptions and Provisions (Continued)

Firefighter's Pension

Fire sworn personnel are covered by the Firefighter's Pension Plan which is a defined benefit single-employer pension plan. Although this is a single-employer pension plan, the defined benefits as well as the employee and employer contributions levels are mandated by Illinois Compiled Statutes (Chapter 40-Article 5/4) and may be amended only by the Illinois legislature. The City accounts for the plan as a pension trust fund.

At May 1, 2012, the Firefighter's Pension Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	60
Current employees	
Vested	31
Nonvested	<u>17</u>
Total	<u>108</u>

The following is a summary of the Firefighter's Pension Plan as provided for in the Illinois Compiled Statutes.

The Firefighter's Pension Plan provides retirement benefits as well as death and disability benefits under two different "Tiers". "Tier 1" (hired before 01/01/2011) employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit of one-half of the monthly salary attached to the rank held in the fire service at the date of retirement.

The monthly pension shall be increased by one-twelfth of 2.5 percent of such monthly salary for each additional month over 20 years of service through 30 years of service, to a maximum of 75 percent of such monthly salary. Employees with at least 10 years but less than 20 years of creditable service may retire at or after age 60 and receive a reduced retirement benefit. The monthly pension of a firefighter 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 paid upon reaching at least the age 55, by 3 percent of the original pension and 3 percent annually thereafter.

"Tier 2" (hired on or after 01/01/2011) 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.

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Plan Descriptions and Provisions (Continued)

Firefighter's Pension (Continued)

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.

Covered employees are required to contribute 9.455 percent of the salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. The City 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.

On March 30, 2011, the actuarial value of the pension fund's assets shall be equal to the market value of the assets as of that date. In determining the actuarial value of assets after March 30, 2011, any actuarial gains or losses from investment returns incurred in a fiscal year shall be recognized in equal amounts over the five-year period following that fiscal year.

Annual Pension Cost, Funding Status and Progress

Police Pension

The City's net pension obligation to the Police Pension Plan as of April 30, 2013 was as follows:

Annual required contribution	\$1,305,191
Interest adjustment	219,351
Adjustment to amortize unfunded liability	<u>(273,214)</u>
Annual pension cost	1,251,328
Contributions made	<u>1,343,476</u>
Increase (decrease) in net pension obligation	(92,148)
Net pension obligation, beginning	<u>3,133,589</u>
Net pension obligation, ending	<u>\$3,041,441</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Annual Pension Cost, Funding Status and Progress (Continued)

Police Pension (Continued)

The annual required contribution for the current year was determined as part of the April 30, 2013 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.0% investment rate of return (b) projected salary increases ranging from 1.12% to 4.86% per year and (c) inflation adjustment of 2.00% per year. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll in accordance with section 3-127 of the Illinois Pension Code. The amortization period at May 1, 2012 was 24 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
4/30/13	\$1,251,328	107.36%	\$3,041,441
4/30/12	1,541,612	76.25%	3,133,589
4/30/11	1,345,346	82.41%	2,767,440

As of May 1, 2012, the most recent actuarial valuation date, the Police Pension plan was 52.4 percent funded. The actuarial accrued liability for benefits was \$34,865,833 and the actuarial value of assets was \$18,263,052 resulting in an underfunded actuarial accrued liability (UAAL) of \$16,602,781. The covered payroll (annual payroll of active employees covered by the plan) was \$2,877,230 and the ratio of the UAAL to the covered payroll was 577.0 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Annual Pension Cost, Funding Status and Progress (Continued)

Firefighters' Pension

The City's net pension obligation to the Firefighter's Pension Plan as of April 30, 2013 was as follows:

Annual required contribution	\$ 778,855
Interest adjustment	146,462
Adjustment to amortize unfunded liability	<u>(182,427)</u>
Annual pension cost	742,890
Contributions made	<u>1,095,584</u>
Increase (decrease) in net pension obligation	(352,694)
Net pension obligation, beginning	<u>2,092,313</u>
Net pension obligation, ending	<u>\$1,739,619</u>

The annual required contribution for the current year was determined as part of the April 30, 2013 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 7.0% investment rate of return (b) projected salary increases ranging from 1.12% to 4.86% per year and (c) inflation adjustment of 2.00% per year. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll in accordance with section 3-127 of the Illinois Pension Code. The amortization period at April 30, 2012 was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
4/30/13	\$ 742,890	147.48%	\$1,739,619
4/30/12	1,009,860	119.94%	2,092,313
4/30/11	1,099,958	82.38%	2,293,698

City of Freeport, Illinois

Notes to Financial Statements

Note 15 Pension Plan (Continued)

Annual Pension Cost, Funding Status and Progress (Continued)

Firefighters' Pension (Continued)

As of May 1, 2012, the most recent actuarial valuation date, the Fire Pension plan was 84.03 percent funded. The actuarial accrued liability for benefits was \$35,357,237 and the actuarial value of assets was \$29,709,123 resulting in an underfunded actuarial accrued liability (UAAL) of \$5,648,114. The covered payroll (annual payroll of active employees covered by the plan) was \$2,919,494 and the ratio of the UAAL to the covered payroll was 193.46 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 16 Other Post-Employment Benefits

Plan description. In addition to providing the pension benefits described, the City provides post-employment healthcare benefits (OPEB) for retired employees through a single employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contribution are governed by the City and can be amended by the City through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report. The activity of the plan is reported in the City's governmental and business-type activities.

Benefits provided. The City provides continued health insurance coverage at the active employer rate to all eligible employees. To be eligible for the benefits, an employee must qualify for retirement under one of the City's retirement plans.

Membership. At April 30, 2013, membership consisted of:

Retirees and beneficiaries currently receiving benefits	37
Terminated employees entitled to benefits but not yet receiving benefits	-
Active vested plan members	107
Active non-vested plan members	<u>75</u>
Total	<u>219</u>
Number of participating employers	<u>1</u>

City of Freeport, Illinois

Notes to Financial Statements

Note 16 Other Post-Employment Benefits

Funding policy. The City is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future. Active employees do not contribute to the plan until retirement.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefits (OPEB) cost (expense) for the fiscal year ended April 30, 2013, is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 was as follows:

<u>Fiscal Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
April 30, 2013	\$594,375	50.6%	\$3,733,617
April 30, 2012	629,646	49.3%	3,439,962
April 30, 2011	629,646	47.8%	3,126,489

The net OPEB obligation as of April 30, 2013, was calculated as follows:

Annual required contribution	\$ 571,442
Interest of net OPEB obligation	137,598
Adjustment to annual required contribution	<u>(114,665)</u>
Annual OPEB cost	594,375
Contributions made	<u>(300,720)</u>
Increase (decrease) in net OPEB obligation	293,655
Net OPEB obligation beginning of year	<u>3,439,962</u>
Net OPEB obligation end of year	<u>\$3,733,617</u>

Funded Status and Funding in Process. The funded status of the plan as of April 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$14,793,816
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	14,793,816
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	10,359,107
UAAL as a percentage of covered payroll	142%

City of Freeport, Illinois

Notes to Financial Statements

Note 16 Other Post-Employment Benefits

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 30, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return and an initial healthcare cost trend rate of 8.0% with an ultimate healthcare inflation rate of 6.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at April 30, 2013, was 30 years.

Note 17 Contingencies

From time to time, the City 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 and the City's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

Note 18 Accounting Changes

In June 2011, the Government Accounting Standards Board (GASB) issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The City adopted this guidance for the year ended April 30, 2013.

City of Freeport, Illinois

Notes to Financial Statements

Note 19 Pending Accounting Pronouncements

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement 61 "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34." The City is required to implement this standard for the fiscal year ending April 30, 2014.

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement 65 "Items Previously Reported as Assets and Liabilities" The City is required to implement this standard for the fiscal year ending April 30, 2014.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement 68 "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" The City is required to implement this standard for the fiscal year ending April 30, 2015.

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

Note 20 Restatements

The City obtained a different valuation for the net pension obligation for the police and fire pension funds. As a result of the valuation, the net position in the governmental activities was increased by \$4,276,100.

**Required Supplementary Information
(Unaudited)**

City of Freeport, Illinois

Required Supplementary Information

Illinois Municipal Retirement Fund Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
12/31/12	\$10,110,237	\$13,073,349	\$2,963,112	77.33%	\$4,433,733	66.83%
12/31/11	10,500,214	13,654,023	3,153,809	76.90%	4,483,167	70.35%
12/31/10	9,943,325	12,763,902	2,820,577	77.90%	4,395,129	64.18%

On a market value basis, the actuarial value of assets as of December 31, 2012 is \$10,603,220. On a market basis, the funded ratio would be 81.11%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with City of Freeport. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

Retiree Health Plan Schedule of Funding Progress

Actuarial Valuation Date April 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
4/30/13	\$0	\$14,793,816	\$14,793,816	0.0%	\$10,359,107	142.81%
4/30/12	0	8,919,997	8,919,997	0.0%	10,126,575	88.09%
4/30/11	0	8,919,997	8,919,997	0.0%	10,126,575	88.09%

City of Freeport, Illinois

Required Supplementary Information

ACTUARIAL VALUATIONS FOR POLICE AND FIREFIGHTERS PENSION SYSTEMS

Police Pension Fund

Analysis of funding progress for the year ended April 30, 2013.

Actuarial Valuation Date <u>May 1</u>	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Funded Ratio <u>(1)/(2)</u>	(4) Unfunded Actuarial Accrued Liability <u>(2)-(1)</u>	(5) Annual Covered Payroll	(6) Unfunded Accrued Liability as a Percentage of Covered Payroll <u>(4)/(5)</u>
2012	\$18,263,052	\$34,865,833	52.4%	\$16,602,781	\$2,877,230	577.0%
2011	17,482,448	35,254,806	49.6%	17,772,358	2,983,941	595.6%
2010	15,843,333	34,227,967	46.3%	18,384,634	2,897,030	634.6%
2009	14,443,123	29,922,428	48.3%	15,479,305	2,970,165	521.2%
2008	15,278,332	30,000,084	50.9%	14,721,752	3,042,379	483.9%
2007	15,345,387	28,989,967	52.9%	13,644,580	2,819,378	484.0%

Fire Pension Fund

Analysis of funding progress for the year ended April 30, 2013.

Actuarial Valuation Date <u>May 1</u>	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Funded Ratio <u>(1)/(2)</u>	(4) Unfunded Actuarial Accrued Liability <u>(2)-(1)</u>	(5) Annual Covered Payroll	(6) Unfunded Accrued Liability as a Percentage of Covered Payroll <u>(4)/(5)</u>
2012	\$29,709,123	\$35,357,237	84.0%	\$5,648,114	\$2,919,494	193.46%
2011	28,424,068	36,419,859	78.0%	7,995,791	2,862,891	279.3%
2010	25,430,308	35,359,086	71.9%	9,928,778	2,779,506	357.2%
2009	22,139,703	34,110,453	64.9%	11,970,750	2,846,313	420.6%
2008	26,223,233	32,705,508	80.2%	6,482,275	2,735,484	237.0%
2007	26,230,887	30,088,786	87.2%	3,857,899	2,421,933	159.3%

City of Freeport, Illinois

General Fund

Schedule of Revenues Compared With Budget

Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes:				
Property taxes	\$ 2,416,107	\$ 2,416,107	\$ 2,410,567	\$ (5,540)
Property transfer tax	120,000	120,000	81,609	(38,391)
Retailers occupation tax	7,500,000	7,500,000	7,413,492	(86,508)
Income tax	2,030,000	2,030,000	2,425,802	395,802
Replacement tax	423,000	423,000	431,922	8,922
Food, drink tax	590,000	590,000	593,700	3,700
Utility tax	450,000	450,000	461,408	11,408
Special use tax	420,000	420,000	407,316	(12,684)
Video gaming tax	-	-	14,940	14,940
Natural gas tax	325,000	325,000	311,369	(13,631)
Telephone utility tax	775,000	775,000	753,859	(21,141)
Water and sewer payment	248,000	248,000	197,964	(50,036)
Total taxes	15,297,107	15,297,107	15,503,948	206,841
Fees:				
Cable TV franchise fees	315,000	315,000	325,468	10,468
Circuit clerk fines and fees	320,000	320,000	328,350	8,350
Building fees and permits	190,100	190,100	271,735	81,635
Airport hangar rent	100,000	100,000	99,122	(878)
911 dispatching fees	68,265	68,265	68,260	(5)
Miscellaneous other charges for services	125,000	125,000	162,984	37,984
Total fees	1,118,365	1,118,365	1,255,919	137,554
Intergovernmental:				
Grant administration reimbursements	30,000	30,000	45,246	15,246
IDOT reimbursement	57,000	57,000	56,958	(42)
Federal grant for SLANT officer	36,000	36,000	40,236	4,236
Fire training reimbursement	10,000	10,000	12,891	2,891
Police training reimbursement	10,000	10,000	9,160	(840)
Traffic signal maintenance reimbursement	15,000	15,000	10,546	(4,454)
Total intergovernmental	158,000	158,000	175,037	17,037

City of Freeport, Illinois

General Fund (Continued) Schedule of Revenues Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues (Continued)				
Interest	50,060	50,060	4,639	(45,421)
Other:				
Miscellaneous local sources	50,000	50,000	205,666	155,666
Total revenues	\$ 16,673,532	\$ 16,673,532	\$ 17,145,209	\$ 471,677

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures				
General government:				
City Council:				
Elected officials	\$ 30,400	\$ 30,400	\$ 30,399	\$ (1)
Ordinance codification	10,000	10,000	6,734	(3,266)
Education, training, travel	3,000	3,000	753	(2,247)
Total city council	43,400	43,400	37,886	(5,514)
Commissions:				
Commissions stipends	4,325	4,325	4,300	(25)
Education, training and travel	12,500	12,500	12,238	(262)
Books, periodicals, and memberships	3,000	3,000	4,569	1,569
Total commissions	19,825	19,825	21,107	1,282
City Clerk:				
Elected officials	56,674	56,674	56,674	-
Printing	500	500	401	(99)
Publication expense	9,000	9,000	5,933	(3,067)
Education, training and travel	1,500	1,500	1,006	(494)
Books, periodicals and memberships	500	500	315	(185)
Office supplies	1,500	1,500	704	(796)
Equipment, furniture and fixtures	6,500	6,500	4,999	(1,501)
Total city clerk	76,174	76,174	70,032	(6,142)
Mayor:				
Non-bargaining	44,102	44,102	42,762	(1,340)
Elected officials	85,264	85,264	85,264	-
Telephone and communications	-	-	1,658	1,658
Education, training and travel	-	-	5,637	5,637
Other supply expense	200	200	40	(160)
Books, periodicals and memberships	500	500	300	(200)
Office supplies	1,000	1,000	407	(593)
Gasoline	4,000	4,000	2,645	(1,355)
Total mayor	135,066	135,066	138,713	3,647

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
General government (Continued):				
Office of Management and Budget:				
Non-bargaining	173,629	157,629	99,154	(58,475)
Bank service charges	150	150	156	6
Telephone	400	400	337	(63)
Education, training and travel	500	500	199	(301)
Office supplies	1,700	1,700	853	(847)
Other technical services	-	16,000	15,093	(907)
Contracted equipment repairs	-	-	105	105
Total Office of Management and Budget	176,379	176,379	115,897	(60,482)
Treasurer:				
Elected officials	55,360	55,360	55,360	-
Printing	100	100	333	233
Seminar, training and travel	1,850	1,850	1,235	(615)
Insurance other than employee benefits	425	425	396	(29)
Gasoline	700	700	475	(225)
Books, periodicals and memberships	125	125	100	(25)
Office supplies	1,950	1,950	1,516	(434)
Total Treasurer	60,510	60,510	59,415	(1,095)
Hearings Administration:				
Other professional services	5,000	5,000	2,790	(2,210)
Total hearings administration	5,000	5,000	2,790	(2,210)
General Government Building:				
Contracted building repair and maintenance	12,500	12,500	9,237	(3,263)
Contracted equipment repair and maintenance	6,500	6,500	3,708	(2,792)
Building supplies	500	500	1,396	896
Building rental	64,200	64,200	61,086	(3,114)
Equipment and janitorial supplies	500	500	3,239	2,739
Natural gas	10,000	10,000	205	(9,795)
Water and sewer	2,500	2,500	25	(2,475)
Total general government building	96,700	96,700	78,896	(17,804)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
General government (Continued):				
Management information systems:				
Computer and network consulting	1,000	1,000	252	(748)
Contracted equipment repairs	7,500	7,500	2,612	(4,888)
Books, periodicals and memberships	1,000	1,000	4,368	3,368
Total management information systems	9,500	9,500	7,232	(2,268)
Community development:				
Salaries, non-bargaining	147,792	147,792	137,799	(9,993)
Other professional services	4,500	4,500	3,480	(1,020)
Other technical services	4,500	4,500	9,096	4,596
Telephone and communications	1,800	1,800	1,392	(408)
Printing	500	500	2,093	1,593
Legal advertising	800	800	355	(445)
Education, training, and travel	3,000	3,000	1,820	(1,180)
Economic development	50,000	50,000	50,000	-
Books, periodicals, and memberships	1,000	1,000	440	(560)
Office supplies	2,000	2,000	1,877	(123)
Total community development	215,892	215,892	208,352	(7,540)
Human resources:				
Non-bargaining	47,303	54,303	53,089	(1,214)
Medical and veterinary services	5,000	5,000	2,633	(2,367)
Recruitment advertising	12,500	5,500	4,008	(1,492)
Education, training and travel	1,000	1,000	787	(213)
Books, periodicals and memberships	1,000	1,000	1,093	93
Office and maintenance supplies	1,100	1,100	544	(556)
Total human resources	67,903	67,903	62,154	(5,749)
Interdepartmental expenses:				
Social security contribution	205,000	205,000	165,506	(39,494)
Contribution to Fire Pension Fund	1,097,607	1,097,607	1,095,584	(2,023)
Contribution to Police Pension Fund	1,341,939	1,341,939	1,311,782	(30,157)
Medicare contribution	132,000	132,000	105,654	(26,346)
Group health insurance	2,774,500	2,774,500	2,819,184	44,684

City of Freeport, Illinois

General Fund (Continued)

Schedule of Expenditures Compared With Budget
Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
General government (Continued):				
Interdepartmental expenses (continued):				
PEHP contributions	155,000	149,700	126,734	(22,966)
Unemployment insurance	75,000	75,000	54,185	(20,815)
Worker compensation	585,500	585,500	532,030	(53,470)
Auditing city records	36,500	36,500	36,500	-
Other consulting services	35,000	177,219	18,606	(158,613)
Equipment rental	7,500	7,500	8,327	827
Contracted equipment repair and maintenance	50,000	50,000	54,270	4,270
Telephone and communications	20,000	20,000	22,974	2,974
Postage	12,000	12,000	7,870	(4,130)
Insurance	293,000	293,000	293,222	222
Fuel for resale	129,000	129,000	129,862	862
Books, periodical and memberships	4,000	4,000	4,507	507
Other supply expense	102,500	102,500	11,612	(90,888)
Office supplies	5,000	5,000	1,299	(3,701)
Property taxes	2,000	2,000	368	(1,632)
Capital outlay	200,000	345,300	134,825	(210,475)
Total interdepartmental expenses	7,263,046	7,545,265	6,934,901	(610,364)
Total general government	8,169,395	8,451,614	7,737,375	(714,239)
Public safety:				
Buildings:				
Non-bargaining	49,909	49,909	34,816	(15,093)
Title searches and recording fees	8,000	8,000	1,381	(6,619)
Other technical services	-	-	1,832	1,832
Lawn care	12,500	12,500	5,400	(7,100)
Contracted equip repairs	800	800	499	(301)
Demolition	75,000	75,000	27,271	(47,729)
Telephone and communications	700	700	861	161
Printing	300	300	229	(71)
Publication expense	400	400	328	(72)
Other supply expense	20,500	20,500	5,059	(15,441)
Books, periodicals and memberships	1,000	1,000	294	(706)
Office and maintenance supplies	800	800	545	(255)
Investigation and patrol supplies	800	800	16	(784)
Gasoline	3,300	3,300	693	(2,607)
Total buildings	174,009	174,009	79,224	(94,785)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Public safety (Continued):				
Police department:				
Non-bargaining	759,312	759,312	748,518	(10,794)
Salaries, AFSCME	695,871	695,871	659,701	(36,170)
Police salaries	2,250,268	2,250,268	2,106,510	(143,758)
Overtime, non-bargaining	16,500	16,500	5,796	(10,704)
Overtime, AFSCME	78,000	78,000	46,120	(31,880)
Overtime, police	135,000	135,000	70,562	(64,438)
Clothing allowance	57,825	57,825	54,939	(2,886)
Medical and veterinary services	4,000	4,000	534	(3,466)
Other prof/admin services consulting	2,000	2,000	752	(1,248)
Custodial services	11,000	11,000	9,102	(1,898)
Laundry and cleaning	150	150	12	(138)
Contracted building repairs	35,000	35,000	15,535	(19,465)
Contracted vehicle repair and maintenance	23,000	23,000	10,134	(12,866)
Contracted equipment repair and maintenance	41,000	41,000	23,554	(17,446)
Rental of equipment	3,000	3,000	2,033	(967)
Telephone and communications	68,640	68,640	36,743	(31,897)
Printing	6,500	6,500	2,769	(3,731)
Publication expense	1,000	1,000	660	(340)
Education, training and travel	50,000	50,000	23,509	(26,491)
Postage	600	600	305	(295)
Books, periodicals and memberships	3,600	3,600	2,730	(870)
Other supply expense	1,000	1,000	1,145	145
Office supplies	8,200	8,200	6,212	(1,988)
Educational supplies	7,500	7,500	560	(6,940)
Extinguisher supplies	800	800	609	(191)
Departmental gear and clothing	8,000	8,000	7,177	(823)
Vehicle supplies	21,000	21,000	20,189	(811)
Building supplies	1,100	1,100	338	(762)
Ammunition	6,000	6,000	1,972	(4,028)
Equipment supplies	2,000	2,000	180	(1,820)
Investigation and patrol supplies	5,500	5,500	4,153	(1,347)
Maintenance and janitorial supplies	3,300	3,300	4,261	961

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Public safety (Continued):				
Police department (Continued):				
Gasoline	100,000	100,000	91,564	(8,436)
Water/sewer	1,200	1,200	39	(1,161)
Computer hardware	15,000	15,000	9,544	(5,456)
Total police department	4,422,866	4,422,866	3,968,461	(454,405)
Fire department:				
Non-bargaining	646,808	646,808	588,239	(58,569)
Fire	2,386,499	2,386,499	2,320,276	(66,223)
Overtime, non-bargaining	2,500	2,500	373	(2,127)
Overtime, fire	44,000	44,000	17,422	(26,578)
Clothing allowance	22,500	22,500	21,193	(1,307)
Medical services	10,000	10,000	98	(9,902)
Laundry and cleaning	2,625	2,625	4,594	1,969
Contracted building repairs	7,500	7,500	423	(7,077)
Contracted vehicle repair and maintenance	20,000	20,000	14,209	(5,791)
Contracted equipment repair and maintenance	17,500	17,500	7,131	(10,369)
Telephone and communications	10,000	10,000	6,991	(3,009)
Printing	500	500	74	(426)
Education, training and travel	10,000	10,000	16,136	6,136
Postage and freight	500	500	150	(350)
Books, periodicals and memberships	4,000	4,000	3,610	(390)
Other supply expense	500	500	275	(225)
Office supplies	1,575	1,575	1,190	(385)
Ambulance supplies	8,000	8,000	6,130	(1,870)
Educational supplies	1,000	1,000	233	(767)
Extinguisher supplies	1,000	1,000	316	(684)
Department clothing gear supplies	10,000	10,000	2,165	(7,835)
Vehicle supplies	15,000	15,000	6,934	(8,066)
Building supplies	5,000	5,000	1,908	(3,092)
Equipment supplies	7,500	7,500	1,535	(5,965)
Investigation and patrol supplies	1,000	1,000	163	(837)
Maintenance and janitorial supplies	6,000	6,000	4,240	(1,760)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Public safety (Continued):				
Fire department (Continued):				
Gasoline	9,700	9,700	5,242	(4,458)
Diesel fuel	26,000	26,000	17,302	(8,698)
Water/sewer	2,250	2,250	244	(2,006)
Total fire department	3,279,457	3,279,457	3,048,796	(230,661)
Total public safety	7,876,332	7,876,332	7,096,481	(779,851)
Judiciary and legal:				
Legal:				
Non-bargaining	142,304	142,304	139,528	(2,776)
Overtime	-	-	307	307
Title searches and recording fees	750	750	656	(94)
Outside legal	40,400	40,400	8,432	(31,968)
Outside legal - prosecutorial	35,000	35,000	31,450	(3,550)
Court report, witness and service fees	4,000	4,000	6,197	2,197
Printing	450	450	48	(402)
Education	2,000	2,000	1,078	(922)
Books, periodicals and memberships	5,750	5,750	5,480	(270)
Office supplies	550	550	507	(43)
Equipment, furniture and fixtures	-	-	139	139
Total judiciary and legal	231,204	231,204	193,822	(37,382)
Public works:				
Department of Public Works:				
Non-bargaining	48,720	48,720	47,402	(1,318)
Engineering	41,500	41,500	37,074	(4,426)
Other technical services	100	100	136	36
Title searches	100	100	3,240	3,140
Telephone and communications	600	600	886	286
Printing	100	100	249	149
Publication expense	200	200	476	276
Education, training and travel	100	100	57	(43)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Public works (Continued):				
Department of Public Works (Continued):				
Other supplies	200	200	586	386
Books, periodicals and memberships	500	500	129	(371)
Postage and freight	100	100	12	(88)
Equipment rental	-	-	500	500
Total department of public works	92,220	92,220	90,747	(1,473)
Street department:				
Non-bargaining	37,684	37,684	36,321	(1,363)
Salaries, AFSCME	677,213	677,213	637,255	(39,958)
Temporary, non-bargaining	-	-	4,579	4,579
Overtime, AFSCME	50,000	50,000	31,385	(18,615)
Medical services	1,500	1,500	1,182	(318)
Contracted building repairs and mainten	20,000	20,000	11,688	(8,312)
Contracted vehicles repairs and maintena	17,000	17,000	7,617	(9,383)
Contracted equipment repairs and mainte	25,000	25,000	10,508	(14,492)
Contracted infrastructure repairs and mai	65,000	65,000	69,830	4,830
Equipment rental	5,000	5,000	2,535	(2,465)
Telephone and communications	5,000	5,000	3,345	(1,655)
Printing	300	300	404	104
Education, training, and travel	500	500	330	(170)
Other supplies	4,000	4,000	4,204	204
Office supplies	4,000	4,000	2,150	(1,850)
Departmental gear and clothing	4,000	4,000	2,409	(1,591)
Vehicle supplies	35,000	35,000	22,554	(12,446)
Rock and road	35,000	35,000	32,572	(2,428)
Street marking supplies	40,000	40,000	38,517	(1,483)
Snow removal supplies	150,000	150,000	133,185	(16,815)
Building supplies	10,000	10,000	9,667	(333)
Equipment supplies	40,000	40,000	64,824	24,824
Maintenance and janitorial supplies	3,000	3,000	10,753	7,753
Gasoline	61,000	61,000	47,266	(13,734)
Diesel fuel	65,000	65,000	68,231	3,231
Equipment, furniture, and fixtures	2,500	2,500	2,335	(165)
Total highways and streets/ transportation	1,357,697	1,357,697	1,255,646	(102,051)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Public works (continued):				
Traffic engineering:				
Contracted equipment repairs	12,500	-	13,413	13,413
Telephone and communications	1,000	1,000	825	(175)
Equipment supplies	12,500	10,000	1,434	(8,566)
Total traffic engineering	26,000	11,000	15,672	4,672
Street lights:				
Contracted equipment repairs	7,500	7,500	2,454	(5,046)
Equipment supplies	(2,000)	(2,000)	(33,403)	(31,403)
Electricity	275,000	275,000	194,866	(80,134)
Total street lights	280,500	280,500	163,917	(116,583)
Airport authority:				
Engineering authority	12,000	12,000	5,824	(6,176)
Airport management	70,000	70,000	71,154	1,154
Disposal and recycling services	1,000	1,000	1,028	28
Contracted building repairs and maintenance	4,500	4,500	2,574	(1,926)
Contracted equipment repair and maintenance	7,500	7,500	5,948	(1,552)
Contracted infrastructure repair and maintenance	13,500	13,500	5,410	(8,090)
Telephone and communications	5,000	5,000	6,901	1,901
Equipment rental	1,700	1,700	2,067	367
Other supply expense	200	200	200	-
Office supplies	(200)	(200)	(300)	(100)
Vehicle supplies	300	300	40	(260)
Other technical services	5,100	5,100	1,384	(3,716)
Insurance other than employee benefits	4,500	4,500	3,717	(783)
Building supplies	1,500	1,500	1,297	(203)
Equipment supplies	2,000	2,000	1,041	(959)
Natural gas	8,000	8,000	4,329	(3,671)
Electricity	16,500	16,500	16,778	278
Gasoline	2,000	2,000	670	(1,330)
Diesel fuel	3,000	3,000	2,994	(6)
Property taxes	30,000	30,000	30,221	221
Total airport authority	188,100	188,100	163,277	(24,823)
Total public works	1,944,517	1,929,517	1,689,259	(240,258)

City of Freeport, Illinois

General Fund (Continued) Schedule of Expenditures Compared With Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures (Continued)				
Social services:				
Dog pound:				
Salaries, AFSCME	39,752	39,752	38,638	(1,114)
Overtime, AFSCME	9,000	9,000	7,344	(1,656)
Medical and veterinary services	7,500	7,500	6,072	(1,428)
Education	400	400	1,039	639
Departmental gear and clothing	300	300	220	(80)
Office and maintenance	100	100	195	95
Animal supplies	2,500	2,500	744	(1,756)
Dog pound license	50	50	25	(25)
Maintenance and janitorial supplies	500	500	638	138
Telephone and communications	1,200	1,200	1,228	28
Gasoline	1,500	1,500	346	(1,154)
Total social services	62,802	62,802	56,489	(6,313)
Culture and recreation:				
City Cemetery:				
Salaries, AFSCME	46,352	46,352	46,490	138
Overtime, AFSCME	1,500	1,500	939	(561)
Telephone and communications	500	500	594	94
Other supply expense	550	550	1,039	489
Equipment rental	1,500	3,000	3,746	746
Equipment supplies	1,500	2,500	1,652	(848)
Building supplies	500	500	804	304
Total city cemetery	52,402	54,902	55,264	362
Forestry:				
Salaries, AFSCME	98,217	98,217	92,955	(5,262)
Overtime, AFSCME	2,500	2,500	2,107	(393)
Other technical services	10,000	10,000	8,450	(1,550)
Contracted vehicle repairs and maintenance	1,500	1,500	1,384	(116)
Tree assistance	2,000	2,000	2,100	100
Other supplies	500	500	918	418
Vehicle supplies	500	500	1,049	549
Equipment supplies	3,500	3,500	2,658	(842)
Total forestry	118,717	118,717	111,621	(7,096)
Total culture and recreation	171,119	173,619	166,885	(6,734)
Total expenditures	\$ 18,455,369	\$ 18,725,088	\$ 16,940,311	\$ (1,784,777)

City of Freeport, Illinois

General Fund (Continued)

Schedule of Other Financing Sources Compared with Budget Required Supplementary Information

Year ended April 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Other financing sources (uses)				
Sale of fixed assets	\$ 25,000	\$ 25,000	\$ -	\$ (25,000)
Operating transfers in:				
Insurance Reserve	200,000	200,000	185,850	(14,150)
Library Fund	25,000	25,000	25,000	-
Motor Fuel Tax Fund	100,000	240,000	124,592	(115,408)
Operating transfers out:				
IMRF Fund	(64,000)	(64,000)	(64,000)	-
Grant Administration Fund	(27,000)	(50,000)	(38,669)	(11,331)
Debt Service Fund	(221,500)	(221,500)	(221,281)	(219)
Total other financing sources	\$ 37,500	\$ 154,500	\$ 11,492	\$ (166,108)

City of Freeport, Illinois

Notes to Required Supplementary Information

Budgets

The term "budget" used throughout the financial statements represents the estimated revenues and appropriations as set forth in the City's annual appropriation ordinance adopted for the fiscal year ended April 30, 2013. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At least 15 days prior to the enactment of the budget, the committee on Finance Procurement submits to the City Council a proposed means of financing expenditure appropriations for the fiscal year commencing the following April 1.
- b. Normally on the last Wednesday in April, but no later than April 30, the budget is legally enacted through passage of the appropriation ordinance.
- c. Budgeted amounts are as originally reported or as amended by the City Council. Individual amendments were not material in relation to the original appropriations.
- d. Unexpended budgeted amounts lapse at the end of the budget year. Spending control is established by the amount of expenditures budgeted for each object and purpose, but management control is exercised at budgetary line item levels.
- e. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Other Supplementary Information

City of Freeport, Illinois

Nonmajor Governmental Funds Combining Balance Sheet

April 30, 2013

	Total Nonmajor Governmental Funds	Special		
		Illinois Municipal Retirement	Motor Fuel Tax	Cemetery Care
Assets				
Cash	\$ 154,802	\$ -	\$ 25,357	\$ -
Investments, at cost	4,015,413	135,240	291,022	108,132
Receivables:				
Property tax	1,334,044	283,541	-	-
Accounts	734,207	-	44,091	-
Prepaid expenses	8,034	-	-	-
Due from other funds	159,081	-	-	-
Total assets	\$ 6,405,581	\$ 418,781	\$ 360,470	\$ 108,132
Liabilities				
Accounts payable	\$ 304,331	\$ -	\$ 9,030	\$ -
Accrued payroll	15,876	-	-	-
Due to other funds	400,802	-	-	-
Deferred revenues	1,334,044	283,541	-	-
Total liabilities	2,055,053	283,541	9,030	-
Fund Balances				
Nonspendable	3,840	-	-	-
Restricted	1,932,709	135,240	351,440	108,132
Committed	2,406,748	-	-	-
Assigned	7,231	-	-	-
Total fund balances	4,350,528	135,240	351,440	108,132
Total liabilities and fund equity	\$ 6,405,581	\$ 418,781	\$ 360,470	\$ 108,132

Revenue

Tourism Promotion	Grant Fund	Motor Vehicle	Drug Forfeiture	Fire Public Safety
\$ 108,697	\$ -	\$ -	\$ 13,059	\$ -
-	-	60,590	-	7,231
-	-	-	-	-
-	477,864	-	-	-
-	-	-	-	-
-	159,081	-	-	-
<u>\$ 108,697</u>	<u>\$ 636,945</u>	<u>\$ 60,590</u>	<u>\$ 13,059</u>	<u>\$ 7,231</u>
\$ -	\$ 236,154	\$ -	\$ -	\$ -
-	-	-	-	-
-	400,791	-	-	-
-	-	-	-	-
-	636,945	-	-	-
-	-	-	-	-
108,697	-	-	13,059	-
-	-	60,590	-	-
-	-	-	-	7,231
<u>108,697</u>	<u>-</u>	<u>60,590</u>	<u>13,059</u>	<u>7,231</u>
<u>\$ 108,697</u>	<u>\$ 636,945</u>	<u>\$ 60,590</u>	<u>\$ 13,059</u>	<u>\$ 7,231</u>

City of Freeport, Illinois

Nonmajor Governmental Funds Combining Balance Sheet

April 30, 2013

	Special			
	Downtown T.I.F. District	Lamm Road T.I.F. District	West Ave. T.I.F. District	Burchard Hills T.I.F. District
Assets				
Cash	\$ -	\$ -	\$ -	\$ -
Investments, at cost	214,533	182,929	32,854	4,961
Receivables:				
Property tax	-	-	-	-
Accounts	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Total assets	\$ 214,533	\$ 182,929	\$ 32,854	\$ 4,961
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Total liabilities	-	-	-	-
Fund Equity				
Nonspendable	-	-	-	-
Restricted	214,533	182,929	32,854	4,961
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	214,533	182,929	32,854	4,961
Total liabilities and fund equity	\$ 214,533	\$ 182,929	\$ 32,854	\$ 4,961

Revenue	Debt Service	Capital Projects	
Public Library	Debt Service	Fire Capital Improvements	Equipment Capital Projects
\$ 7,689	\$ -	\$ -	\$ -
498,736	202,548	1,989,733	286,904
1,050,503	-	-	-
9,617	-	179,233	23,402
4,194	-	3,840	-
-	-	-	-
\$ 1,570,739	\$ 202,548	\$ 2,172,806	\$ 310,306
\$ 33,802	\$ -	\$ 25,345	\$ -
15,876	-	-	-
-	11	-	-
1,050,503	-	-	-
1,100,181	11	25,345	-
-	-	3,840	-
470,558	-	-	310,306
-	202,537	2,143,621	-
-	-	-	-
470,558	202,537	2,147,461	310,306
\$ 1,570,739	\$ 202,548	\$ 2,172,806	\$ 310,306

City of Freeport, Illinois

Nonmajor Governmental Funds Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Year ended April 30, 2013

	Total Nonmajor Governmental Funds	Special		
		Illinois Municipal Retirement	Motor Fuel Tax	Cemetery Care
Revenues				
Taxes	\$ 2,489,722	\$ 255,414	\$ -	\$ -
Fees	514,063	-	-	2,400
Intergovernmental	3,047,256	-	725,341	-
Interest	6,553	218	489	(2)
Other	98,575	-	98,117	-
Total revenues	6,156,169	255,632	823,947	2,398
Expenditures				
General government	1,812,327	309,794	-	-
Public safety	195,759	-	-	-
Public works	2,351,959	-	1,029,985	-
Culture and recreation	1,152,903	-	-	-
Debt service	527,137	-	-	-
Capital outlay	876,307	-	-	-
Total expenditures	6,916,392	309,794	1,029,985	-
Excess of revenues over (under) expenditures	(760,223)	(54,162)	(206,038)	2,398
Other financing sources (uses)				
Sale of fixed assets	31,445	-	-	-
Debt proceeds	1,427,410	-	-	-
Premium on bonds issued	8,724	-	-	-
Discount on bonds issued	(6,120)	-	-	-
Payment on refunded bonds	(400,000)	-	-	-
Operating transfers in	486,401	64,000	-	-
Operating transfers out	(497,893)	-	(124,592)	-
Total other financing sources (uses)	1,049,967	64,000	(124,592)	-
Excess of revenues (under) expenditures and other uses	289,744	9,838	(330,630)	2,398
Fund balance - April 30, 2012	4,060,784	125,402	682,070	105,734
Fund balance - April 30, 2013	\$ 4,350,528	\$ 135,240	\$ 351,440	\$ 108,132

Revenue				
Tourism Promotion	Grants Fund	Motor Vehicle	Drug Forfeiture	Fire Public Safety
\$ 173,337	\$ -	\$ -	\$ -	\$ -
-	-	6,000	-	-
-	1,991,149	-	15,431	-
249	-	49	-	7
-	-	-	-	77
173,586	1,991,149	6,049	15,431	84
179,100	1,323,433	-	-	-
-	167,441	-	28,318	-
-	542,226	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
179,100	2,033,100	-	28,318	-
(5,514)	(41,951)	6,049	(12,887)	84
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	41,950	-	-	-
-	-	-	-	-
-	41,950	-	-	-
(5,514)	(1)	6,049	(12,887)	84
114,211	1	54,541	25,946	7,147
\$ 108,697	\$ -	\$ 60,590	\$ 13,059	\$ 7,231

City of Freeport, Illinois

Nonmajor Governmental Funds Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Year ended April 30, 2013

	Special			
	Downtown T.I.F. District	Lamm Road T.I.F. District	West Ave. T.I.F. District	Burchard Hills T.I.F. District
Revenues				
Taxes	\$ 252,446	\$ 690,370	\$ 22,044	\$ 2,264
Fees	-	-	-	-
Intergovernmental	-	-	-	-
Interest	285	369	34	4
Other	-	-	-	-
Total revenues	252,731	690,739	22,078	2,268
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	165,927	601,748	11,507	566
Culture and recreation	-	-	-	-
Debt service	4,437	-	-	-
Capital outlay	-	-	-	-
Total expenditures	170,364	601,748	11,507	566
Excess of revenues over (under) expenditures	82,367	88,991	10,571	1,702
Other financing sources (uses)				
Sale of fixed assets	-	-	-	-
Debt proceeds	112,038	-	-	-
Premium on bonds issued	2,399	-	-	-
Discount on bonds issued	-	-	-	-
Payment on refunded bonds	(110,000)	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(65,484)	-	-	-
Total other financing sources (uses)	(61,047)	-	-	-
Excess of revenues (under) expenditures and other uses	21,320	88,991	10,571	1,702
Fund balance - April 30, 2012	193,213	93,938	22,283	3,259
Fund balance - April 30, 2013	\$ 214,533	\$ 182,929	\$ 32,854	\$ 4,961

Revenue	Debt Service	Capital Projects	
Public Library	Debt Service	Fire Capital Improvements	Equipment Capital Projects
\$ 1,093,847	\$ -	\$ -	\$ -
26,535	-	466,427	12,701
74,283	-	-	241,052
2,708	114	1,689	340
381	-	-	-
<u>1,197,754</u>	<u>114</u>	<u>468,116</u>	<u>254,093</u>
-	-	-	-
-	-	-	-
-	-	-	-
1,152,903	-	-	-
11,697	498,560	12,443	-
1,175	-	543,532	331,600
<u>1,165,775</u>	<u>498,560</u>	<u>555,975</u>	<u>331,600</u>
31,979	(498,446)	(87,859)	(77,507)
-	-	25,000	6,445
295,372	-	1,020,000	-
6,325	-	-	-
-	-	(6,120)	-
(290,000)	-	-	-
-	380,451	-	-
(25,000)	-	(282,817)	-
<u>(13,303)</u>	<u>380,451</u>	<u>756,063</u>	<u>6,445</u>
18,676	(117,995)	668,204	(71,062)
451,882	320,532	1,479,257	381,368
<u>\$ 470,558</u>	<u>\$ 202,537</u>	<u>\$ 2,147,461</u>	<u>\$ 310,306</u>

City of Freeport, Illinois

Fiduciary Funds
Private-Purpose Trust Funds
Combining Statement of Net Position

April 30, 2013

	Total	Foreign Fire Insurance	Revolving Loan
Assets			
Cash and cash equivalents	\$ 78,959	\$ -	\$ 78,959
Investments	40,273	40,273	-
Loans receivable	361,767	-	361,767
Total assets	480,999	40,273	440,726
Liabilities and Net Position			
Accounts payable	406	406	-
Net position	\$ 480,593	\$ 39,867	\$ 440,726

City of Freeport, Illinois

Fiduciary Funds Private-Purpose Trust Funds Combining Schedule of Changes in Net Position

Year ended April 30, 2013

	Total	Foreign Fire Insurance	Revolving Loan
Additions			
Foreign fire insurance	\$ 26,897	\$ 26,897	\$ -
Interest	15,395	25	15,370
Total additions	42,292	26,922	15,370
Deductions			
Contractual services	2,662	2,662	-
Supplies	7,779	7,779	-
Capital outlay	1,781	1,781	-
Total deductions	12,222	12,222	-
Net increase (decrease)	30,070	14,700	15,370
Net position, April 30, 2012	450,523	25,167	425,356
Net position, April 30, 2013	\$ 480,593	\$ 39,867	\$ 440,726

City of Freeport, Illinois

Fiduciary Funds Pension Trust Funds Combining Statement of Plan Net Position

April 30, 2013

	Total	Police Pension	Firefighters' Pension
Assets			
Cash and cash equivalents	\$ 591,755	\$ 253,140	\$ 338,615
Receivables:			
Accrued interest	184,034	67,395	116,639
Investments, at fair value			
State investment pool	9,370	9,370	-
U.S. government obligations	9,605,966	3,728,176	5,877,790
State and local obligations	12,415,776	4,807,078	7,608,698
Common stock	3,441,130	1,937,460	1,503,670
Mutual funds	24,917,118	8,839,891	16,077,227
Total investments	50,389,360	19,321,975	31,067,385
Total assets	51,165,149	19,642,510	31,522,639
Liabilities and Net Position			
Net position	\$ 51,165,149	\$ 19,642,510	\$ 31,522,639

City of Freeport, Illinois

Fiduciary Funds

Pension Trust Funds

Combining Schedule of Changes in Plan Net Position

Year ended April 30, 2013

	Total	Police Pension	Firefighters' Pension
Additions			
Contributions - employer	\$ 2,435,060	\$ 1,339,476	\$ 1,095,584
Contributions - employees	554,334	285,350	268,984
Other investment income	5,140,807	2,043,564	3,097,243
Total additions	8,130,201	3,668,390	4,461,811
Deductions			
Benefits and refunds	3,728,262	1,722,565	2,005,697
Other charges and services	200,150	83,367	116,783
Total deductions	3,928,412	1,805,932	2,122,480
Net increase	4,201,789	1,862,458	2,339,331
Net position, April 30, 2012	46,963,360	17,780,052	29,183,308
Net position, April 30, 2013	\$ 51,165,149	\$ 19,642,510	\$ 31,522,639

City of Freeport, Illinois

Annual Financial Information Freeport Sewer System

Freeport Sewer System

The Freeport sanitary sewer system consists of nine lift stations and 125 miles of sanitary sewers ranging in size from 6 inches to 42 inches. Freeport separated its sanitary and storm sewer systems in the late 1930s. The oldest lift stations were constructed in 1969.

Freeport Water and Sewer Commission

The five-person Freeport Water & Sewer Commission was founded in 1937 to manage, operate and control water and wastewater treatment systems. The Commissioners are appointed by the Mayor and approved by City Council. They serve five-year terms. The Commission has the authority to hire an Executive Director to oversee the daily operations. The Commission approves and monitors the annual budget after its approval by City Council. After the Council has approved the budget, only those items that exceed \$2,500 and are not in the budget must be approved by the Council.

Sewer Rates and Collections

<u>Fiscal Year</u>	<u>Sewer Rates Debt Service</u>	<u>Sewer Rates Per 100 Cu Ft</u>	<u>Sewer Revenues</u>
2004	\$4.90/month	\$1.68	\$2,781,776
2005	\$4.90/month	\$1.74	\$2,799,819
2006	\$4.90/month	\$2.21	\$3,072,732
2007	\$4.90/month	\$2.29	\$3,249,700
2008	\$5.15/month	\$2.63	\$3,837,360
2009	\$5.15/month	\$2.63	\$4,114,647
2010	\$5.15/month	\$2.63	\$3,960,197
2011	\$5.15/month	\$2.63	\$3,892,259
2012	\$5.15/month	\$2.63	\$3,385,926
2013	\$5.15/month	\$2.63	\$3,570,555

City of Freeport, Illinois

Annual Financial Information Property Assessment and Tax Information

Assessment of Property

The City of Freeport Assessor supervises the assessment of all real property and railroad property not used for transportation purposes. These valuations are subject to appeal by the taxpayer to the City Council of Review and the Illinois Property Tax Appeal Board and then to equalization by the Illinois Department of Revenue. Real estate sales ratio studies conducted annually by the Illinois Department of Revenue provide the foundation of inter-City equalization by means of multipliers assigned to each City. The multiplier (also known as the "equalization factor") is applied to all assessments in the City to adjust such assessment by a given percentage in order to bring the City level toward the statutory standard of 33 1/3% of fair market value. The multiplier applied to levy year 2000 assessments in City of Freeport was 1.0.

Equalized Assessed Valuation

The City's EAV has decreased \$17,516,809 or approximately 6.778% between 2008 and 2012 (see table following). The EAV is net of Senior Citizen's Homestead and General Homestead exemptions. The Senior Citizen's Homestead, effective for tax years 1983 and following, has reduced the EAV of real property owned and occupied by a person 65 years of age or older. The General Homestead Exemption is valuable to owner-occupied residential property; the amount of the exemption is the increase in the current year's equalized assessed valuation above the 1977 tax year equalized assessed valuation, with a maximum of \$1,500 in 1978, \$3,000 between 1979 and 1982 and \$3,500 thereafter.

City of Freeport Equalized Assessed Valuation Five Year History

<u>Tax Levy Year</u>	<u>Equalized Assessed Valuation</u>	<u>Percent Increase Over Prior Year</u>
2012	\$240,899,418	(7.283)%
2011	\$259,823,575	(2.030)%
2010	\$265,099,149	3.408%
2009	\$256,361,207	(0.795)%
2008	\$258,416,227	1.398%

Per Capita EAV

\$9,124.98

City of Freeport, Illinois

Annual Financial Information Property Assessment and Tax Information

Equalized Assessed Valuation (Continued)

Components of the EAV for the 2012 levy year are approximately as follows:

<u>Use</u>	<u>EAV</u>	<u>Percentage</u>
Residential	\$161,352,194	66.978%
Farm	161,718	0.067%
Commercial	65,233,519	27.080%
Industrial	13,625,306	5.656%
Railroad	<u>526,681</u>	<u>0.219%</u>
	<u>\$240,899,418</u>	<u>100.000%</u>

Overlapping Debt

The following table reflects the City's direct and overlapping debt as of April 30, 2012 including the Bonds.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self Supporting</u>	<u>Net</u>
General Obligation Bonds	<u>\$25,225,000</u>	<u>\$25,225,000</u>	<u>\$-0-</u>
Total	<u>\$25,225,000</u>	<u>\$25,225,000</u>	<u>\$-0-</u>
Per Capita City Direct Debt			\$-0-
Percent of Direct Debt to 2011 EAV			-0-%

<u>Overlapping Debt</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Stephenson County	\$12,342,426	38%	\$ 4,690,122
School District #145	22,396,713	73%	16,349,600
Freeport Park District	2,155,000	99%	2,133,450
Community College District #519	<u>8,338,736</u>	14%	<u>1,167,423</u>
Total	<u>\$45,232,875</u>		<u>\$24,340,595</u>

Per capita net overlapping debt	\$921.99
Percent of net overlapping debt to 2012 EAV	10.10%

City of Freeport, Illinois

Annual Financial Information Property Assessment and Tax Information

Property Tax Rates

Excluding taxes levied by other units of government, the City's property tax rates expressed as a dollar for each \$1.00 of EAV, for the levy years 2008 through 2012 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Corporate	0.22602	0.18601	0.19390	0.28179	0.38616
Police Pension	0.49463	0.42992	0.37123	0.35365	0.31928
Public Library	0.44048	0.43906	0.43368	0.43590	0.43561
Municipal Retirement	0.11889	0.10252	0.09506	0.08270	0.06502
Firefighter's Pension	<u>0.25865</u>	<u>0.35164</u>	<u>0.38253</u>	<u>0.28179</u>	<u>0.22154</u>
Total	<u>1.53867</u>	<u>1.50915</u>	<u>1.47640</u>	<u>1.43583</u>	<u>1.42761</u>

In addition to the City's tax rates, residents of the City must pay property taxes to other units of local government. Total rates for property in the City expressed as a dollar for each \$100 of EAV, for the levy year 2012 were as follows:

<u>Taxing Unit</u>	<u>2012 Tax Levy</u>
City of Freeport	1.09819
Freeport Library	.44048
Stephenson County	1.28077
Freeport Township	.42559
Community College District #519	.47784
School District #145	6.56534
Freeport Park District	1.03752
Freeport MOSQ Abate	.04643

City of Freeport, Illinois

Schedule of Bonds Payable - Governmental Funds

Year ended April 30, 2013

Year ended April 30	2006 General Obligation Bonds		2013 General Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 17,000	\$ 71,632	\$ 107,295	\$ 5,613
2015	18,000	73,665	107,295	6,002
2016	17,000	73,387	108,850	3,856
2017	19,000	73,386	83,970	840
2018	140,000	72,124	-	-
2019	143,000	66,665	-	-
2020	148,000	60,990	-	-
2021	151,000	55,107	-	-
2022	161,000	49,009	-	-
2023	169,000	42,496	-	-
2024	170,000	35,645	-	-
2025	127,000	28,738	-	-
2026	136,000	23,580	-	-
2027	138,000	18,033	-	-
2028	147,000	12,376	-	-
2029	150,000	6,262	-	-
	\$ 1,851,000	\$ 763,095	\$ 407,410	\$ 16,311

2013A	
General Obligation Bonds	
Principal	Interest
\$ -	\$ 16,254
65,000	23,595
65,000	22,945
65,000	22,295
65,000	21,385
70,000	20,475
70,000	19,075
70,000	17,675
70,000	15,995
75,000	14,315
75,000	12,215
80,000	10,115
80,000	7,875
85,000	5,355
85,000	2,677
-	-
\$ 1,020,000	\$ 232,246

City of Freeport, Illinois

Schedule of Bonds Payable - Proprietary Funds

Year ended April 30, 2013

Year ended April 30	2004		2005	
	General Obligation Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 510,000	\$ 322,792	\$ 30,000	\$ 249,912
2015	530,000	299,843	30,000	248,786
2016	555,000	275,992	35,000	247,646
2017	575,000	253,793	35,000	246,158
2018	600,000	230,792	35,000	244,672
2019	625,000	206,793	35,000	243,184
2020	645,000	181,792	40,000	241,696
2021	675,000	155,993	40,000	239,996
2022	700,000	128,318	40,000	238,296
2023	735,000	98,918	45,000	236,546
2024	760,000	67,680	45,000	234,578
2025	800,000	35,000	50,000	232,608
2026	-	-	915,000	230,422
2027	-	-	960,000	189,246
2028	-	-	1,000,000	146,046
2029	-	-	1,045,000	99,796
2030	-	-	1,095,000	51,466
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
2034	-	-	-	-
	\$ 7,710,000	\$ 2,257,706	\$ 5,475,000	\$ 3,621,054

2006		2013	
General Obligation Bonds		General Obligation Bonds	
Principal	Interest	Principal	Interest
\$ 38,000	\$ 321,268	\$ 237,705	\$ 12,436
42,000	317,035	237,705	13,298
43,000	314,913	241,150	8,544
131,000	312,514	186,030	4,560
320,000	308,151	-	-
332,000	296,130	-	-
347,000	283,280	-	-
364,000	269,858	-	-
374,000	255,356	-	-
391,000	240,469	-	-
405,000	224,920	-	-
423,000	208,827	-	-
439,000	191,985	-	-
457,000	174,532	-	-
478,000	156,389	-	-
495,000	136,722	-	-
510,000	116,377	-	-
535,000	95,340	-	-
555,000	72,870	-	-
575,000	49,560	-	-
605,000	25,410	-	-
\$ 7,859,000	\$ 4,371,906	\$ 902,590	\$ 38,838

Independent Auditor's Report on Compliance with State of Illinois Public Act 85-1142

Illinois Department of Revenue
Springfield, Illinois

We have audited the basic financial statements of the City of Freeport, Illinois for the year ended April 30, 2013, and have issued our report thereon dated October 28, 2013. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the eligibility for costs incurred incidental to the implementation of the redevelopment plan and redevelopment projects associated with the Downtown TIF District, Lamm Road TIF District, West Ave. TIF District, and Burchard Hills TIF District pursuant to Subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Freeport, Illinois' management is responsible for the government's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the government's compliance with State of Illinois Public Act 85-1142, "An Act in Relation to Tax Increment Financing".

The results of our test indicate that for the items tested, the City of Freeport, Illinois complied with Subsection (q) of Section 11-74.4-3 of Public Act 85-1142.

Wipfli LLP

Freeport, Illinois
October 28, 2013