

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
December 31, 2016



**VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND
TABLE OF CONTENTS**

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1-2
BASIC FINANCIAL STATEMENTS	
Statement of Fiduciary Net Position	3
Notes to Financial Statements	4-7
INDEPENDENT ACCOUNTANT’S REPORT ON COMPLIANCE WITH PUBLIC ACT 97-0636.....	8
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance.....	9
Schedule of Fund Balance by Source.....	10
Schedule of Changes in Assets and Liabilities.....	11

INDEPENDENT AUDITOR'S REPORT



1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Village President
Members of the Board of Trustees
Village of Hoffman Estates, Illinois

We have audited the accompanying basic financial statements of the Economic Development Area Special Tax Allocation Fund (the Fund), an agency fund of the Village of Hoffman Estates, Illinois, as of and for the year ended December 31, 2016, and the related notes to 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Area Special Tax Allocation Fund, an agency fund of the Village of Hoffman Estates, Illinois, as of December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Economic Development Area Special Tax Allocation Fund and do not purport to, and do not, present fairly the financial position of the Village of Hoffman Estates, Illinois, as of December 31, 2016, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
June 12, 2017

BASIC FINANCIAL STATEMENTS

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

**ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND**

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2016

ASSETS

Cash and Investments	\$ 4,152
	<u>4,152</u>
TOTAL ASSETS	\$ 4,152
	<u><u>4,152</u></u>

LIABILITIES

Accounts Payable	\$ -
Due to Other Governments	4,152
	<u>4,152</u>
TOTAL LIABILITIES	\$ 4,152
	<u><u>4,152</u></u>

See accompanying notes to financial statements.

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Economic Development Area Special Tax Allocation Fund (the Fund) of the Village of Hoffman Estates, Illinois have been prepared in accordance with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

A. Reporting Entity

The Fund is a fiduciary fund of the Village of Hoffman Estates, Illinois (the Village).

B. Fund Accounting

The Fund uses one fund to report its financial information. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified in this report into the fiduciary category.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When assets are held on behalf of others as their agent, an agency fund is used.

C. Basis of Accounting

The agency fund uses the accrual basis of accounting but has no measurement focus. As an agency fund, only assets and liabilities are reported on the basic financial statements. Under the accrual basis of accounting, additions are recorded when earned and deductions are recorded at the time the liabilities are incurred.

D. Investments

Investments are stated at fair value at December 31, 2016. Securities traded on national exchanges are at the last reported sale price.

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Due From/To Primary Government

Due from primary government balance, if applicable, represents interfund balances due from the General Fund of the Village at December 31, 2016.

2. DEPOSITS AND INVESTMENTS

The deposits and investments of the Fund are held separately from those of the Village.

The Village's investment policy authorizes the Village to invest in bonds, notes, certificates of indebtedness, treasury bills or other securities, including obligations of the Government National Mortgage Association, which are guaranteed by the full faith and credit of the United States Government as to principal and interest, bonds, notes, debentures or other similar obligations of the United States Government or its agencies, interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any investment constituting direct obligations of any bank, as defined by the Illinois Banking Act, that is insured by the Federal Deposit Insurance Corporation, certain insured short-term obligations of corporations organized in the United States and certain Money Market Mutual Funds registered under the Investment Company Act of 1940. In addition to any other investments authorized under the Public Funds Investment Act, the Village may invest its public funds in interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation or school district, short-term discount obligations of the Federal National Mortgage Association (FNMA) or in the shares or other forms of securities legally issuable by savings banks or savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the laws of the United States Government, dividend-bearing share accounts, and share certificate accounts or class of share accounts of a credit union chartered under the laws of the State of Illinois or the laws of the United States Government.

It is the policy of the Village to invest their funds in a manner which will provide the highest investment return with the maximum security while meeting the operating demands of the Village and conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objective of the policy is safety (preservation of capital and protection of investment principal), liquidity and yield.

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

The Village maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the Village's funds.

A. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village's investment policy requires pledging of collateral not less than 110% of fair market value for all bank balances in excess of federal depository insurance with the collateral held by an agent of the Village in the Village's name.

B. Investments

Interest rate risk is the risk that change in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Village limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed currently. The investment policy limits the maximum maturity lengths of most investments to two years.

The Village limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by requiring investments primarily in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government that are explicitly guaranteed by the United States Government. Illinois Funds are rated AAA by a national rating agency.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Village will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Village investment policies requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Village's agent separate from where the investment was purchased.

Concentration of Credit Risk - The Village's investment policy has the following diversification guidelines: no financial institution shall hold more than 50% of the Village's investment portfolio, commercial paper shall not exceed 10% of the Village's investment portfolio, and continuously investing a portion of the portfolio in readily available funds such as the Illinois Treasurer's Pool or money market funds to ensure that appropriate liquidity is maintained in order to meet on-going obligations.

The Village's investment policy states that investments in derivatives and participation in securities lending transactions are prohibited.

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. LONG-TERM DEBT

A. Tax Increment Revenue Note Disclosures

The Village, pursuant to an economic development agreement dated February 25, 1990, has agreed to reimburse Sears Roebuck and Co. (Sears) for certain project costs Sears has incurred as the Village’s agent in furthering the economic development plan and project. The economic development agreement requires that an economic development tax increment revenue note be executed each time Sears makes such an advance. These notes are payable from and secured solely by the pledged incremental revenues deposited from time-to-time in the Sears EDA General Account Fund created by the indenture of the Series 2005 and Series 1991 tax increment revenue bonds.

Prior to January 1, 2012, the interest rates on the notes changed every March 1, June 1, September 1 and December 1, indexed to a percentage of the weekly 25 Revenue Bond Index as published by “The Bond Buyer.” For project cost notes, the interest rate was 90% of the index. For developer cash advance notes, the interest rate was 75% of the index. Effective January 1, 2012, the interest rate for all project cost notes and developer advance notes is 4%. Payments on the notes are due annually as, and to the extent, monies are available in the Sears EDA General Account Fund. Any amount of interest not paid on the due date is to be added to the principal balance of the note then outstanding. Tax increment revenue notes currently outstanding are as follows:

Issue	Fund Debt Retired by	Balance January 1	Issuances or Accretions	Retirements or Accretions	Balances December 31	Current Portion
Tax Increment Revenue Notes due in annual installments only if tax increment revenues are available.	Debt Service	\$ 130,717,178	\$ 4,524,839	\$ 12,079,693	\$ 123,162,324	\$ -
TOTAL TAX INCREMENT REVENUE NOTES		\$ 130,717,178	\$ 4,524,839	\$ 12,079,693	\$ 123,162,324	\$ -

The increase of \$4,524,839 in the Tax Increment Revenue Notes is interest due as of December 31, 2016 that accrues to the principal balance if not paid.

B. Debt Service Requirements to Maturity

The Hoffman Estates Economic Development Project Area Tax Increment Revenue Notes provide that the payment of principal and interest on the notes are due only if tax increment revenues are available for payment of debt service in the Sears EDA General Account Fund before the TIF expires in 2027. Any amount of unpaid interest at the interest due dates is added to the principal balance of the note.



1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH PUBLIC ACT 97-0636

The Honorable Village President
Members of the Board of Trustees
Village of Hoffman Estates, Illinois

We have examined management's assertion, included in its representation letter dated June 12, 2017 that the Village of Hoffman Estates, Illinois (the Village) complied with the provisions of subsection (e) of Section 3 of the Economic Development Area Tax Allocation Act (Illinois Public Act 97-0636) during the year ended December 31, 2016. Management is responsible for the Village's assertion and for compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Village compliance based on our examination.

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

In our opinion, management's assertion that the Village complied with the aforementioned requirements for the year ended December 31, 2016 is fairly stated, in all material respects.

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

Sikich LLP

Naperville, Illinois
June 12, 2017

SUPPLEMENTARY INFORMATION

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

**ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

For the Year Ended December 31, 2016

REVENUES	
Property Taxes	\$ 26,477,955
Investment Income	<u>38,306</u>
Total Revenues	<u>26,516,261</u>
EXPENDITURES	
Economic Development	
Municipal Contribution	5,000,000
Administrative Fees	24,610
Governmental Share Distribution	9,409,116
Tax Increment Revenue Note Distribution	<u>12,079,693</u>
Total Expenditures	<u>26,513,419</u>
NET CHANGE IN FUND BALANCE	2,842
FUND BALANCE, JANUARY 1	<u>1,310</u>
FUND BALANCE, DECEMBER 31	<u><u>\$ 4,152</u></u>

(See independent auditor's report.)

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

**ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND**

SCHEDULE OF FUND BALANCE BY SOURCE

For the Year Ended December 31, 2016

BEGINNING BALANCE, JANUARY 1	<u>\$ 1,310</u>
DEPOSITS	
Property Taxes	26,477,955
Investment Income	<u>38,306</u>
Total Deposits	<u>26,516,261</u>
Balance Plus Deposits	<u>26,517,571</u>
EXPENDITURES	
Economic Development	
Municipal Contribution	5,000,000
Administrative Fees	24,610
Governmental Share Distribution	9,409,116
Tax Increment Revenue Note Distribution	<u>12,079,693</u>
Total Expenditures	<u>26,513,419</u>
ENDING BALANCE, DECEMBER 31	<u><u>\$ 4,152</u></u>
ENDING BALANCE BY SOURCE	
Property Taxes*	<u>\$ 4,152</u>
Subtotal	4,152
Less Surplus Funds	<u>-</u>
ENDING BALANCE	<u><u>\$ 4,152</u></u>

* Monies are designated to pay the Tax Increment Revenue Notes due in annual installments only if tax increment revenues are available.

(See independent auditor's report.)

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

**ECONOMIC DEVELOPMENT AREA SPECIAL
TAX ALLOCATION FUND**

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended December 31, 2016

	Balances January 1	Additions	Deletions	Balances December 31
ASSETS				
Cash and Investments	\$ 8,213	\$ 26,516,261	\$ 26,520,322	\$ 4,152
TOTAL ASSETS	\$ 8,213	\$ 26,516,261	\$ 26,520,322	\$ 4,152
LIABILITIES				
Accounts Payable	\$ 6,903	\$ -	\$ 6,903	\$ -
Due to Other Governments	1,310	26,516,261	26,513,419	4,152
TOTAL LIABILITIES	\$ 8,213	\$ 26,516,261	\$ 26,520,322	\$ 4,152

(See independent auditor's report.)