

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

ECONOMIC DEVELOPMENT AREA SPECIAL  
TAX ALLOCATION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended  
December 31, 2012



VILLAGE OF HOFFMAN ESTATES, ILLINOIS  
ECONOMIC DEVELOPMENT AREA SPECIAL TAX ALLOCATION FUND  
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INDEPENDENT AUDITOR'S REPORTS



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

[www.sikich.com](http://www.sikich.com)

Certified Public Accountants & Advisors  
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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the Economic Development Area Special Tax Allocation Fund, an agency fund of the Village of Hoffman Estates, Illinois as of December 31, 2012, as listed in the accompanying table of contents. These basic financial statements are the responsibility of Village's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these basic financial statements present only the Economic Development Area Special Tax Allocation Fund and are not intended to present fairly the financial position and changes in financial position of the Village of Hoffman Estates, Illinois, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net position of the Economic Development Area Special Tax Allocation Fund of the Village of Hoffman Estates, Illinois, as of December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the 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 financial statements or to the 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 financial statements as a whole.

Seluch LLP

Naperville, Illinois  
March 21, 2013

VILLAGE OF HOFFMAN ESTATES, ILLINOIS  
ECONOMIC DEVELOPMENT AREA SPECIAL TAX ALLOCATION FUND  
STATEMENT OF FIDUCIARY NET POSITION

December 31, 2012

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ASSETS

Cash and Investments	<u>\$ 14,809,626</u>
Total Assets	<u><u>\$ 14,809,626</u></u>

LIABILITIES

Due to Other Entities	\$ 14,179,484
Due to Primary Government	<u>630,142</u>
Total Liabilities	<u><u>\$ 14,809,626</u></u>

(See accompanying notes to financial statements.)

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

December 31, 2012

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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, 2012. 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)

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Due to Primary Government

Due to primary government balances represent the Village of Hoffman Estates' share of incremental property tax surplus distributions during the year ended December 31, 2012. The balance at December 31, 2012 of \$630,142 was remitted to the Village's General Fund in January 2013.

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 of America as to principal and interest, bonds, notes, debentures, or other similar obligations of the United States of America 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, 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, 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.

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)

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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 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

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.

The interest rates on the notes change 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 is 90% of the index. For developer cash advance notes, the interest rate is 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 semi-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	\$ 82,234,777	\$ 2,122,769	\$ 14,588,442	\$ 69,769,104	\$ -
<b>TOTAL TAX INCREMENT REVENUE NOTES</b>		<b>\$ 82,234,777</b>	<b>\$ 2,122,769</b>	<b>\$ 14,588,442</b>	<b>\$ 69,769,104</b>	<b>\$ -</b>

The increase of \$2,122,769 in the Tax Increment Revenue Notes represents interest due March 31 and September 30, 2012 of \$2,122,769 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.



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

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INDEPENDENT AUDITOR'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 March 21, 2013 that the Village of Hoffman Estates 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, 2012. 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 of Hoffman Estates complied with the aforementioned requirements for the year ended December 31, 2012 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.

A handwritten signature in cursive script that reads 'Sikich LLP'.

Naperville, Illinois  
March 21, 2013

**SUPPLEMENTARY INFORMATION**

VILLAGE OF HOFFMAN ESTATES, ILLINOIS

ECONOMIC DEVELOPMENT AREA SPECIAL TAX ALLOCATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES

For the Year Ended December 31, 2012

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REVENUES

Property Taxes	\$ 23,009,796
Investment Income	3,592
	<hr/>
Total Revenues	23,013,388

EXPENDITURES

Economic Development	
Municipal Contribution	4,242,711
Governmental Share Distribution	4,597,436
Tax Increment Revenue Note Distribution	14,588,442
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Total Expenditures	23,428,589

NET CHANGE IN FUND BALANCES	(415,201)
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FUND BALANCES, JANUARY 1	14,594,685
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FUND BALANCES, DECEMBER 31	<u>\$ 14,179,484</u>
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(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, 2012

BEGINNING BALANCE, JANUARY 1	\$ 14,594,685
DEPOSITS	
Property Taxes	23,009,796
Investment Income	3,592
Total Deposits	23,013,388
Balance Plus Deposits	37,608,073
EXPENDITURES	
Economic Development	
Municipal Contribution	4,242,711
Governmental Share Distribution	4,597,436
Tax Increment Revenue Note Distribution	14,588,442
Total Expenditures	23,428,589
ENDING BALANCE, DECEMBER 31	\$ 14,179,484
ENDING BALANCE BY SOURCE	
Property taxes*	14,179,484
Subtotal	14,179,484
Less Surplus Funds	-
ENDING BALANCE	\$ 14,179,484

\* 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, 2012

	Balances January 1	Additions	Deletions	Balances December 31
<b>ASSETS</b>				
Cash and Investments	\$ 15,314,999	\$ 14,806,626	\$ 15,311,999	\$ 14,809,626
Due from Primary Government	1,500	3,000	4,500	-
<b>TOTAL ASSETS</b>	<b>\$ 15,316,499</b>	<b>\$ 14,809,626</b>	<b>\$ 15,316,499</b>	<b>\$ 14,809,626</b>
<b>LIABILITIES</b>				
Due to Other Entities	\$ 14,594,685	\$ 14,179,484	\$ 14,594,685	\$ 14,179,484
Due to Primary Government	721,814	630,142	721,814	630,142
<b>TOTAL LIABILITIES</b>	<b>\$ 15,316,499</b>	<b>\$ 14,809,626</b>	<b>\$ 15,316,499</b>	<b>\$ 14,809,626</b>

(See independent auditor's report.)