

CITY OF HIGHWOOD, ILLINOIS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
APRIL 30, 2012**

CITY OF HIGHWOOD, ILLINOIS

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Highwood, Illinois, (City), as of and for the year ended April 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Highwood, Illinois. Our responsibility is to express opinions on these financial statements based on our audit.

Except as disclosed in the following two paragraphs, 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 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 opinions.

The City of Highwood does not maintain detailed records of the historical cost, accumulated depreciation or depreciation expense of its capital assets. Therefore, we were unable to obtain sufficient evidence to form an opinion on the capital assets, accumulated depreciation, and depreciation expense of the City of Highwood. The City has not reported any capital asset activity, including additions, disposals or depreciation, for the fiscal year ended April 30, 2012.

The City of Highwood does not maintain accurate records of its compensated absences liability. Therefore, we were unable to obtain sufficient evidence to form an opinion on the compensated absences liability of the City of Highwood. The City has not reported any compensated absences activity, including increases and decreases for the fiscal year ended April 30, 2012.

In our opinion, except for the effect of such adjustments, if any, as might have been disclosed with respect to the capital assets, accumulated depreciation, depreciation expense, and the compensated absences liability, had detailed records been available, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Highwood, Illinois, as of April 30, 2012, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in Note 1 D, the accompanying financial statements reflect certain changes in the reporting of fund balance classifications for governmental funds due to the implementation of Governmental Accounting Standards Board Statement No. 54.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-14, budgetary comparison information on pages 62 and 63, and schedules of funding progress for

the City's pension plans on pages 64 through 67 be presented to supplement the basic financial statements. Such information, although not 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 this information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Highwood. The financial information listed as Combining and Individual Funds Financial Statements and Schedules and Supplemental Data in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and derives from and relates directly to the underlying and other records used to prepare the basic financial statements. That information has been subjected to the auditing procedures applied to the audit of the basic financial statements and certain other 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 basic financial statements as a whole.

Wolf & Company LLP

Oakbrook Terrace, Illinois
March 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

Our discussion and analysis of the City of Highwood's financial performance provides an overview of the City of Highwood financial activities for the fiscal year ended April 30, 2012. Please read it in conjunction with the City of Highwood financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City of Highwood net assets increased by a total of \$576,706. While net assets of business-type activities increased by \$497,076, or nearly 15.9 percent, net assets of our governmental activities increased by \$79,630, or nearly 3.4 percent.
- During the year, expenses were \$79,630 less than the \$5,767,824 generated in tax and other revenues for governmental programs and transfers in from Business-Type Activities. In the prior year, expenses were \$268,501 less than the \$5,153,701 generated in tax and other revenues for the governmental program.
- Revenues for business-type activities decreased to \$1,250,315 (or 0.5 percent) while expenses increased by 2.8 percent. The decrease in the business type activities revenues occurred due to declines in the usage of water in the current year, mostly offset by an increase in grant revenue.
- Total cost of all programs was increased by \$822,013 or 14.8 percent in the current year. The increase in costs were in the area of public works improvements paid for through the capital projects funds and general government expenses related to contractual services and debt interest payments which had partial subsidies.
- The General Fund reported a surplus this year of \$318,168 which took fund balance from a restated \$38,403 to \$356,571 at the end of the current year.
- The resources available for appropriation were \$41,969 more than budgeted for the General Fund. In addition, expenditures were kept under appropriation by \$404,148 through cost cutting measures including personnel restructuring and elimination of capital purchases.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (on pages 15-17) provide information about the activities of the City of Highwood as a whole and present a longer-term view of the City of Highwood finances. Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City of Highwood's operation in more detail than the government-wide statements by providing information about the City of Highwood's most significant funds. The remaining statements provide financial information about activities for which the City of Highwood acts solely as a trustee or agent for the benefit of those outside of the government.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

USING THIS ANNUAL REPORT - Continued

Government-Wide Financial Statements

The government-wide financial statements provide readers with a broad overview of the City of Highwood finances, in a manner similar to a private-sector business. The government-wide financial statements can be found on pages 15-17 of this report.

The statement of net assets reports information on all of the City of Highwood assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Highwood is improving or deteriorating. Consideration of other nonfinancial factors, such as changes in the City of Highwood property tax base and the condition of the City of Highwood's roads, is needed to assess the overall health of the City of Highwood.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Highwood that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Highwood include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Highwood include waterworks and sewerage and garbage.

The City of Highwood includes one separate legal entity in its report, the Highwood Library. Although legally separate, this "component unit" is important because the City of Highwood is financially accountable for it. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Highwood, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Highwood can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

USING THIS ANNUAL REPORT - Continued

Fund Financial Statements - Continued

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City of Highwood near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 of Highwood maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, TIF Debt Service Fund, and the Capital Projects Fund, all of which are considered major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Highwood adopts an annual appropriated budget for all of the governmental funds. A budgetary comparison statement for these funds has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary Funds

The City of Highwood maintains two enterprise funds that are proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Highwood utilizes these enterprise funds to account for its waterworks and sewerage, and garbage operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Waterworks and Sewerage Fund and for the Garbage Fund, both of which are considered to be major funds of the City of Highwood.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

USING THIS ANNUAL REPORT - Continued

Fund Financial Statements - Continued

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Highwood's own programs. The accounting use for fiduciary funds is much like that used for proprietary funds. The City of Highwood maintains fiduciary funds for the downstate Police and Fire Pension Funds.

The basic fiduciary fund financial statements can be found on pages 25 and 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-61 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highwood I.M.R.F. and police and firefighters employee pension obligations. Required supplementary information can be found on pages 62-67 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 68-84 of this report.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following tables show that in the case of the City of Highwood, assets exceeded liabilities by \$6,039,941, increasing by 11% over prior years.

Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 7.5	7.7	1.0	0.8	8.5	8.5
Capital Assets	4.1	4.1	3.7	3.7	7.8	7.8
Total Assets	11.6	11.8	4.7	4.5	16.3	16.3
Long-Term Debt Outstanding	(6.9)	(7.1)	(1.0)	(1.3)	(7.9)	(8.4)
Other Liabilities	(2.3)	(2.4)	(0.1)	(0.1)	(2.4)	(2.5)
Total Liabilities	(9.2)	(9.5)	(1.1)	(1.4)	(10.3)	(10.9)
Net Assets						
Invested in Capital Assets	0.5	1.0	2.7	2.4	3.2	3.4
Restricted	1.9	1.4	-	-	1.9	1.4
Unrestricted (Deficit)	-	(0.1)	0.9	0.7	0.9	0.6
Total Net Assets	2.4	2.3	3.6	3.1	6.0	5.4

A large portion of the City of Highwood's net assets is its investment in capital assets (for example, land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding which represents 53 percent of net assets. The City of Highwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Highwood investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion or 31 percent of the City of Highwood net assets represents resources that are subject to external restrictions on how they may be used. The remaining 16 percent, or \$0.9 million, represents unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Changes in Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$ 1.2	1.3	1.1	1.3	2.3	2.6
Capital Grants/Contributions	0.2	0.3	0.1	-	0.3	0.3
Operating Grants/Contributions	0.4	-	-	-	0.4	-
General Revenues					-	-
Property Taxes	1.5	1.5	-	-	1.5	1.5
Sales Taxes	1.1	1.1	-	-	1.1	1.1
Intergovernmental	0.6	0.5	-	-	0.6	0.5
Other General Revenues	0.8	0.4	-	-	0.8	0.4
Total Revenues	5.8	5.1	1.2	1.3	7.0	6.4
Expenses						
General Government	1.1	0.8	-	-	1.1	0.8
Public Safety	2.6	2.7	-	-	2.6	2.7
Public Works	1.5	1.0	-	-	1.5	1.0
Culture and Recreation	0.1	0.2	-	-	0.1	0.2
Interest and Fiscal Charges	0.4	0.2	-	-	0.4	0.2
Water	-	-	0.5	0.5	0.5	0.5
Garbage	-	-	0.2	0.2	0.2	0.2
Total Expenses	5.7	4.9	0.7	0.7	6.4	5.6
Increase in Net Assets	0.1	0.2	0.5	0.6	0.6	0.8
Net Assets - Beginning	2.3	2.1	3.1	2.5	5.4	4.6
Net Assets - Ending	2.4	2.3	3.6	3.1	6.0	5.4

Net assets of the City of Highwood governmental activities increased by 3 percent (\$2.4 million compared to \$2.3 million). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, changed from a \$.1 million deficit the previous fiscal year to zero in the current year.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

The City has continued to improve the infrastructure of the City with debt that was issued. As the City continues and finishes this project, it focuses its efforts on the general operations of the City. In the current year the unrestricted deficit was eliminated and we continue to strive towards a positive unrestricted net assets balance through cost saving measures and working toward appropriate staffing levels.

Net assets of business-type activities increased by 16 percent (\$3.1 million compared to \$3.6 million in the current year). This increase, however, cannot be used to make up for the deficits that might arise in governmental activities. The City of Highwood generally can only use these net assets to finance the continuing operations of the waterworks and sewerage and garbage operations. The increase was anticipated by the City to assist with payment of the long-term debt that will have significant payments in the near future.

Total revenues increased by \$.6 million compared to prior years. The increase is due to grants the City has received throughout the year as well as increases in license and permits, utility taxes and Special Events Revenues. The Special Events Revenues had corresponding increases in the expenses. The total cost of all programs and services increased by approximately \$800,000 or 15 percent. The increase is due to infrastructure projects that were completed in the current year in the public works department and increases in costs in general government. The City's cash flows have improved in the current years as reflected in the fact that the City did not require to borrow against a line of credit in the current year.

Governmental Activities

Revenues for governmental activities increased by \$0.7 million. This increase was due to the City obtaining \$0.4 million in capital grants to cover the additional costs in the Public Works department. In addition, there was an increase in revenues from telecommunication utility tax from an increase in the tax. The City also noted an increase in the Liquor Licenses due to the change of ownership of several locations in town. Expenses also saw an increase in \$0.8 million. This was due to increases in public works due to projects related to grants and increase in general government costs for things like attorney fees and debt interest payments (which was subsidized with federal subsidies).

The cost of all governmental activities this year was \$5.7 million compared to \$4.9 million last year. Overall, governmental program revenues were \$1.8 million, including intergovernmental aid and fees for services. This increased in 2012 from \$1.6 million in 2011, principally based on increases in capital grants and contributions.

CITY OF HIGHWOOD, ILLINOIS

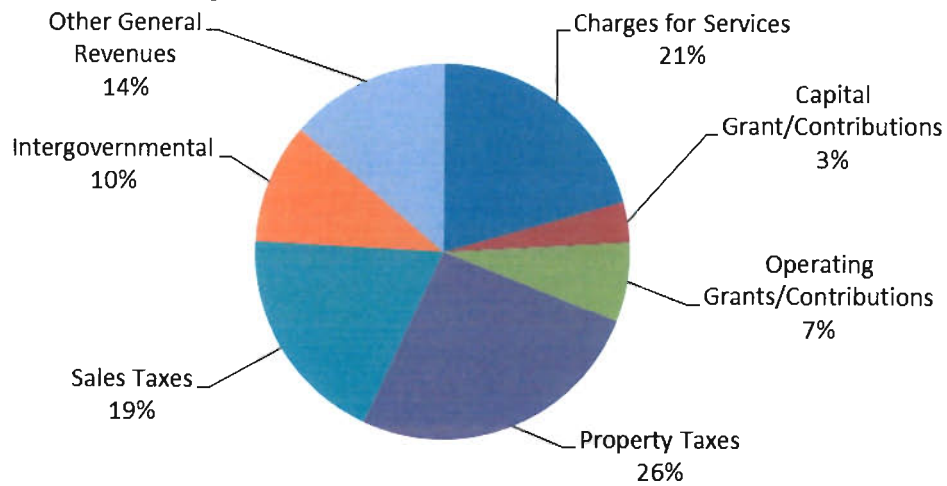
**Management’s Discussion and Analysis
April 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

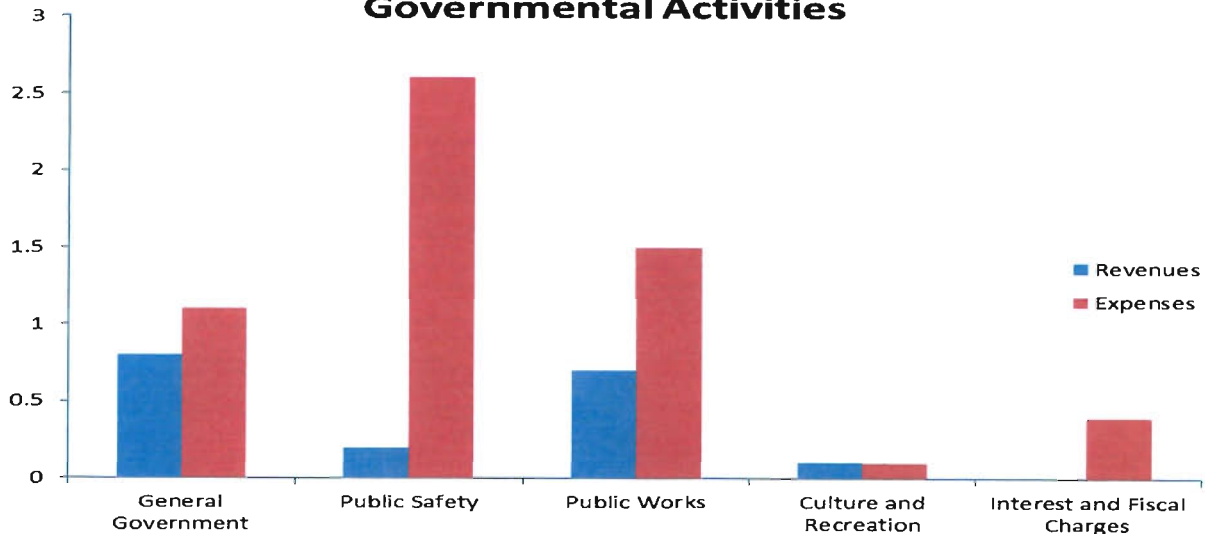
Governmental Activities (continued)

The following table graphically depicts the major revenue sources of the City of Highwood. It depicts very clearly the reliance of property and sales taxes and charges for services to fund governmental activities. The downtown district plays a large role in the operations of the City by funding 22 percent of its operations. The City continues to evaluate different revenue streams to fund the different operations of the City.

Revenues by Sources - Governmental Activities



Revenues and Expenses by Function - Governmental Activities



CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Governmental Activities – Continued

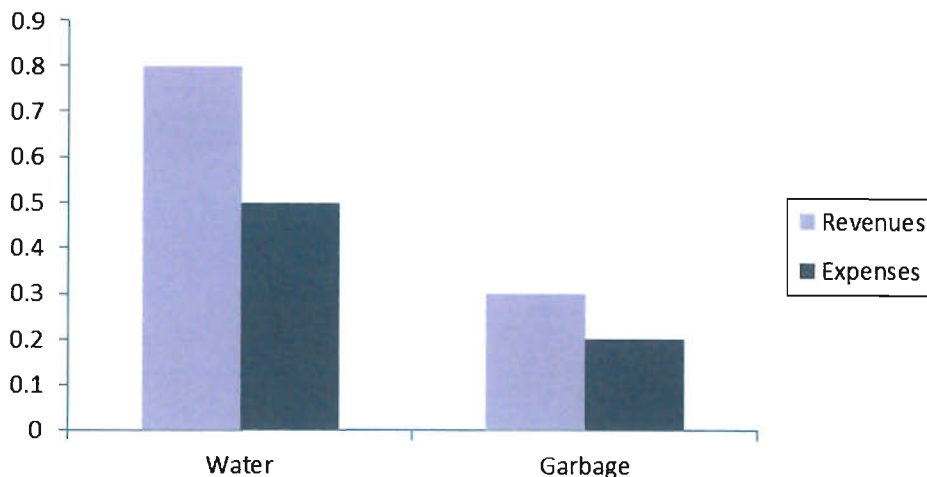
The 'Expenses and Program Revenues' Table identifies those governmental functions where program expenses greatly exceed revenues. As can be seen by the above, public safety and general government are dependent on the general revenues of the City to function. The City continues to evaluate all available fees for comparability to other communities and collections to cover the costs of operations.

Business-type activities

Revenues of the City's business-type activities decreased by 7 percent (\$1.2 million in 2012 compared to \$1.3 in 2011) and expenses remained flat for the current year. Key factors behind these results include:

- The waterworks and sewerage system is dependent upon the sale of water. In years of mild summer temperatures, the usage of water will decline and the revenues will decline. In the City of Highwood, our costs related to the water and sewer system tend to be consistent year over year due to the fact that our water sold is based on water pumped out of Lake Michigan. The current fiscal year the City noted no increase in water rates and coupled with a milder summer we noted a decline in the actual revenues received however costs are consistent.
- The Garbage Fund operated at a surplus of \$60,124 for the fiscal year. In the current year, the City entered into a new contract for garbage services. This contract had an increase in costs that was passed on to the residents. Due to the timing of implementation, it appears as if there is significant surplus.

Expenses and Program Revenues - Business Type Activities



CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Business-type Activities - Continued

The above graph compares program revenues to expenses for waterworks and sewerage operations, and garbage operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Highwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$ 5.3 million which is a nominal change from the prior year. Although there was no change in total, some funds had changes. The General Fund reports an increase of \$318,168 over the prior year and the TIF Debt Service Fund has an increase of \$370,019. The Capital Projects Fund had a decline of \$573,473 due to the construction projects being begun in the current year. In addition, these other changes in fund balances should be noted:

- Motor fuel tax funds, provided by the State, can only be used to replace, maintain, or improve the City's roads. This year the City received \$160,601 in revenues from the State and expended \$165,042 in these allowable activities.

Proprietary funds

The City of Highwood's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City reports the Waterworks and Sewerage Fund as a major proprietary fund. This fund accounts for all of the operations of the municipal water and sewer system. The City pumps and processes water directly from Lake Michigan. The spread between the sale rates and costs of processing the water pumped is intended to finance the operations of the waterworks and sewerage system, including labor costs, supplies, and infrastructure maintenance.

The City intends to run the fund at a breakeven rate. Periodically, there will be an annual surplus or draw down due to timing of capital projects and payments of debt service payments. The surplus during the current fiscal year was \$497,076. Unrestricted net assets increased by \$229,677 over the prior year due to increasing the reserves to support the debt service requirements coming in the near future.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council did not amend its budget in the current year.

Actual charges to appropriations (expenditures) were \$0.4 million below the budget amounts. Each department in the General Fund had positive variances to budget. The Public Safety department had the most significant savings to budget. Most savings in the current year was due to positions remaining vacant for the entire year or projects not being completed due to lack of funding.

In addition, resources available for appropriation were \$41,969 above the final budgeted amount. The City noted an over budget situation in Intergovernmental Revenues – particularly the Income Taxes and Sales Taxes. These overages were necessary to offset shortfalls in the Park and Recreation Fees and Miscellaneous Income. There were also several line items that were unbudgeted for such as grants that we received revenues on.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Highwood investment in capital assets for its governmental and business-type activities as of April 30, 2012 was \$7.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, land improvements, vehicles, machinery and equipment, park facilities, roads, sidewalks, and bridges. The City does not maintain detail records of its capital assets and, therefore, increases and depreciation expense could not be accounted for.

Capital Assets - Net of Depreciation (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2011	2011	2012	2011
Land	\$ 0.7	0.7	-	-	0.7	0.7
Buildings	1.1	1.1	0.4	0.4	1.5	1.5
Machinery and Equipment	-	-	-	-	-	-
Infrastructure	2.3	2.3	3.3	3.3	5.6	5.6
Total	4.1	4.1	3.7	3.7	7.8	7.8

Further detail on capital assets can be found in Note 6 to the financial statements.

CITY OF HIGHWOOD, ILLINOIS

Management's Discussion and Analysis April 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION – Continued

Debt

At year-end, the City of Highwood had total outstanding bonded debt of \$7.9 million as compared to \$8.4 million the previous year, an decrease of 5.9 percent. The following is a comparative statement of outstanding debt:

General Obligation and Revenue Bonds (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 6.7	6.9	-	-	6.7	6.9
Other Liabilities	0.2	0.2			0.2	0.2
Revenue Bonds and Notes	-	-	1.0	1.3	1.0	1.3
Total	6.9	7.1	1.0	1.3	7.9	8.4

Further detail on the City's long-term debt can be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for its governmental and business-type activities. One of those factors is the economy.

As of April 30, 2012, the City was in negotiations with three different unions within the City. The Lieutenants recently unionized and are negotiating their first contract with the City. In addition to the Lieutenants, the Firefighter's and Patrolman's contracts have also expired and are under negotiation.

The City of Highwood has a large restaurant base which supports the operations of the Village. With the struggling economy, the City needs to continue to find revenue streams which do not create undo burden on this reliable revenue base.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City Of Highwood finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to City Administrator, City of Highwood, 17 Highwood Avenue, Highwood, Illinois, 60040.

BASIC FINANCIAL STATEMENTS

CITY OF HIGHWOOD, ILLINOIS

Statement of Net Assets

April 30, 2012

	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and Investments	\$ 2,111,180	460,102	2,571,282	288,009
Receivables, Net				
Taxes	1,890,899		1,890,899	223,102
Intergovernmental	230,382		230,382	
Accounts		194,266	194,266	
Other	88,838		88,838	
Due from Fiduciary Funds	5,082		5,082	
Due from Component Unit	4,545		4,545	
Due from Primary Government				1,342
Prepaid Expenses	6,414	3,990	10,404	
Other Assets				30
Internal Balances	(724)	724		
Net Pension Asset	9,656		9,656	
Restricted Assets				
Cash and Investments	3,169,383	339,442	3,508,825	
Deferred Charges	40,767		40,767	
Capital Assets				
Land	678,443	83,196	761,639	
Other Capital Assets, Net of Depreciation	3,391,130	3,614,287	7,005,417	377,544
Total Assets	11,625,995	4,696,007	16,322,002	890,027
Liabilities				
Accounts Payable	300,571	32,277	332,848	4,152
Accrued Liabilities and Deposits	76,086	6,397	82,483	
Other Accrued Liabilities	21,823	401	22,224	
Unearned Revenue	1,703,776		1,703,776	223,102
Accrued Interest Payable	128,978	15,653	144,631	
Due to Component Unit	1,342		1,342	
Due to Primary Government				4,545
Noncurrent Liabilities				
Due Within One Year	170,574	278,863	449,437	
Due in More Than One Year	6,794,973	750,347	7,545,320	
Total Liabilities	9,198,123	1,083,938	10,282,061	231,799
Net Assets				
Investment in Capital Assets, Net of Related Debt	515,728	2,676,474	3,192,202	377,544
Restricted for				
Debt Service	1,451,111		1,451,111	
Road Construction	276,414		276,414	
Public Safety	158,162		158,162	
Recreation	22,087		22,087	
Unrestricted	4,370	935,595	939,965	280,684
Total Net Assets	\$ 2,427,872	3,612,069	6,039,941	658,228

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Activities

Year Ended April 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,088,360	843,208		
Public Safety	2,588,713	210,104		
Public Works	1,440,524	57,050	242,705	370,000
Culture, Education and Recreation	132,787	131,657		
Interest and Fiscal Charges	437,810			
Total Governmental Activities	<u>5,688,194</u>	<u>1,242,019</u>	<u>242,705</u>	<u>370,000</u>
Business-Type Activities				
Water and Sewer	503,707	845,433	133,330	
Garbage	198,322	258,200		
Total Business-Type Activities	<u>702,029</u>	<u>1,103,633</u>	<u>133,330</u>	<u>-</u>
Total Primary Government	<u>\$ 6,390,223</u>	<u>2,345,652</u>	<u>376,035</u>	<u>370,000</u>
Component Unit				
Highwood Library	\$ 236,475	9,062	5,865	-

General Revenues
 Property Taxes
 Utility Taxes
 Home Rule Sales Taxes
 Intergovernmental - Sales Taxes
 Intergovernmental - Other Taxes
 Investment Income
 Miscellaneous
 Transfers
 Total General Revenues and Transfers

Change in Net Assets

Net Assets

May 1

April 1

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
(245,152)		(245,152)	
(2,378,609)		(2,378,609)	
(770,769)		(770,769)	
(1,130)		(1,130)	
(437,810)		(437,810)	
(3,833,470)	-	(3,833,470)	-
	475,056	475,056	
	59,878	59,878	
-	534,934	534,934	-
(3,833,470)	534,934	(3,298,536)	-
			(221,548)
1,539,518		1,539,518	216,573
410,768		410,768	
580,846			
486,093		580,846	
550,917		550,917	
10,883	1,706	12,589	202
282,865	11,646	294,511	12,209
51,210	(51,210)		
3,913,100	(37,858)	3,389,149	228,984
79,630	497,076	576,706	7,436
2,348,242	3,114,993	5,463,235	650,792
2,427,872	3,612,069	6,039,941	658,228

CITY OF HIGHWOOD, ILLINOIS

Balance Sheet - Governmental Funds

April 30, 2012

	General Fund	TIF Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and Investments	\$ 296,541	1,451,111		363,528	2,111,180
Cash and Investments - Restricted			3,169,383		3,169,383
Receivables					
Property Tax	977,269	599,281			1,576,550
Other Taxes	128,080			3,674	131,754
Intergovernmental	419,475			10,498	429,973
Other Receivables, Net	71,842				71,842
Prepaid Items	6,414				6,414
Due from Other Funds	12,670		31,619	23,672	67,961
Due from Fiduciary Funds	5,082				5,082
Due from Component Unit	4,545				4,545
Total Assets	\$ 1,921,918	2,050,392	3,201,002	401,372	7,574,684
Liabilities					
Accounts Payable	\$ 209,598		69,009	21,964	300,571
Accrued Payroll	76,086				76,086
Other Current Liabilities	21,823				21,823
Due to Other Funds	54,784			13,901	68,685
Due to Component Unit	1,342				1,342
Deferred Revenue	1,201,714	599,281			1,800,995
Total Liabilities	1,565,347	599,281	69,009	35,865	2,269,502
Fund Balances					
Nonspendable					
Prepaid Items	6,414				6,414
Restricted					
Debt Service		1,451,111			1,451,111
Road Construction				276,414	276,414
Public Safety	99,354			58,808	158,162
Capital Projects			3,131,993	30,285	3,162,278
Recreation	22,087				22,087
Unassigned	228,716				228,716
Total Fund Balances	356,571	1,451,111	3,131,993	365,507	5,305,182
Total Liabilities and Fund Balances	\$ 1,921,918	2,050,392	3,201,002	401,372	7,574,684

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

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

April 30, 2012

Total Fund Balances - Governmental Funds	\$ 5,305,182
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,069,573
Bond issuance costs are expenditures in governmental funds in the year of issuance but are capitalized and amortized on the Statement of Net Assets.	40,767
Some receivables that are not currently available are reported as deferred revenue in the fund financial statements but are recognized as revenue when earned in the government-wide statements.	97,219
Discounts on bonds are an other financing use in the year of issuance but are shown as a decrease in bonds payable and amortized over the life of the bond in the Statement of Net Assets.	32,794
The Net Pension Asset for Fire Pension funding is not reported in the governmental funds	9,656
Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and Notes Payable	(6,756,022)
Compensated Absences	(202,443)
Net Pension Obligations	(39,876)
Accrued Interest	(128,978)
Net Assets of Governmental Activities	<u>\$ 2,427,872</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

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

Year Ended April 30, 2012

	General Fund	TIF Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property Tax	\$ 947,406	592,112			1,539,518
Other Taxes	999,605			22,543	1,022,148
Intergovernmental	1,096,571		370,000	187,301	1,653,872
Licenses and Permits	356,602				356,602
Fines, Forfeitures and Penalties	110,868				110,868
Public Charges for Services	774,549				774,549
Investment Income	970	2,907	6,547	459	10,883
Miscellaneous	143,699		102,014		245,713
Total Revenues	4,430,270	595,019	478,561	210,303	5,714,153
Expenditures					
Current					
General Government	1,018,297			20,533	1,038,830
Public Safety	2,426,316			72,262	2,498,578
Public Works	474,610		88,704	151,461	714,775
Culture, Recreation and Education	132,787				132,787
Capital Outlay	108,076		725,749	48,470	882,295
Debt Service					
Principal	10,097	130,000			140,097
Interest	3,581	108,665	237,581		349,827
Total Expenditures	4,173,764	238,665	1,052,034	292,726	5,757,189
Excess (Deficiency) of Revenues over Expenditures	256,506	356,354	(573,473)	(82,423)	(43,036)
Other Financing Sources (Uses)					
Transfers In	51,210	13,665			64,875
Transfers Out				(13,665)	(13,665)
Proceeds from Sale of Capital Assets	10,452				10,452
Other Financing Sources (Uses)	61,662	13,665	-	(13,665)	61,662
Net Change in Fund Balance	318,168	370,019	(573,473)	(96,088)	18,626
Fund Balance					
May 1 (as Restated)	38,403	1,081,092	3,705,466	461,595	5,286,556
April 30	\$ 356,571	1,451,111	3,131,993	365,507	5,305,182

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

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

Year Ended April 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 18,626
Amounts reported for governmental activities in the Statement of Activities are different because:	
Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements.	(7,991)
Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Principal Repaid	140,097
Some of the bonds outstanding are accretion bonds. Accretion of the bonds during the year increases the carrying value of the bonds and will be repaid using future year resources. The current year's accretion is charged to interest expense in the Statement of Activities.	(38,165)
The amortization of issuance costs, premiums on bonds, discounts on bonds and losses on refunding are not a use of a financial resource.	(4,268)
Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Changes in:	
Net Pension Obligation/Asset	16,881
Accrued Interest on Debt	(45,550)
Change in Net Assets	<u>\$ 79,630</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Net Assets - Proprietary Funds

April 30, 2012

	Waterworks and Sewerage Fund	Nonmajor Enterprise Fund - Garbage Fund	Total
Assets			
Current Assets			
Cash and Investments	\$ 328,957	131,145	460,102
Receivables			
Accounts	189,536	4,730	194,266
Due from Other Funds	1,560	190	1,750
Prepaid Items	3,990		3,990
Restricted Assets			
Cash and Investments	339,442		339,442
Total Current Assets	<u>863,485</u>	<u>136,065</u>	<u>999,550</u>
Noncurrent Assets			
Capital Assets			
Land	83,196		83,196
Property and Equipment	6,061,735		6,061,735
Less: Accumulated Depreciation	(2,447,448)		(2,447,448)
Total Noncurrent Assets	<u>3,697,483</u>	<u>-</u>	<u>3,697,483</u>
Total Assets	<u>4,560,968</u>	<u>136,065</u>	<u>4,697,033</u>
Liabilities			
Current Liabilities			
Accounts Payable	29,017	3,260	32,277
Accrued Payroll	6,215	182	6,397
Other Current Liabilities		401	401
Due to Other Funds	1,026		1,026
Interest Payable	15,653		15,653
Total Current Liabilities	<u>51,911</u>	<u>3,843</u>	<u>55,754</u>
Noncurrent Liabilities			
Long-Term Debt			
Due Within One Year	278,863		278,863
Due in More Than One Year	750,347		750,347
Total Noncurrent Liabilities	<u>1,029,210</u>	<u>-</u>	<u>1,029,210</u>
Total Liabilities	<u>1,081,121</u>	<u>3,843</u>	<u>1,084,964</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,676,474		2,676,474
Unrestricted	803,373	132,222	935,595
Total Net Assets	<u>\$ 3,479,847</u>	<u>132,222</u>	<u>3,612,069</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Revenues, Expenses and Changes in
Net Assets - Proprietary Funds

Year Ended April 30, 2012

	Waterworks and Sewerage Fund	Nonmajor Enterprise Fund - Garbage Fund	Total
Operating Revenues			
Public Charges for Services	\$ 845,433	258,200	1,103,633
Operating Expenses			
Personnel	231,518	20,543	252,061
Contractual Services	207,282	163,896	371,178
Materials and Supplies	26,416	1,148	27,564
Total Operating Expenses	465,216	185,587	650,803
Operating Income	380,217	72,613	452,830
Nonoperating Revenues (Expenses)			
Investment Income	1,460	246	1,706
Grant Revenue	133,330		133,330
Miscellaneous Revenue	11,646		11,646
Miscellaneous Expense	(4,271)	(12,735)	(17,006)
Interest Expense	(34,220)		(34,220)
	107,945	(12,489)	95,456
Income before Transfers	488,162	60,124	548,286
Other Financing Uses			
Transfers Out	(51,210)		(51,210)
Changes in Net Assets	436,952	60,124	497,076
Net Assets			
May 1	3,042,895	72,098	3,114,993
April 30	\$ 3,479,847	132,222	3,612,069

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Cash Flows - Proprietary Funds

Year Ended April 30, 2012

	Waterworks and Sewerage Fund	Nonmajor Enterprise Fund - Garbage Fund	Total
Cash Flows from Operating Activities			
Received from Customers	\$ 908,754	253,470	1,162,224
Paid to Suppliers for Grounds and Services	(224,079)	(192,036)	(416,115)
Paid to Employees for Services	(231,523)	(20,966)	(252,489)
Other Operating Expenses	(4,271)	(12,735)	(17,006)
	<u>448,881</u>	<u>27,733</u>	<u>476,614</u>
Cash Flows from Investing Activities			
Investment Income	1,460	246	1,706
Other Income	11,646		11,646
	<u>13,106</u>	<u>246</u>	<u>13,352</u>
Cash Flows from Noncapital Financing Activities			
Interfund Receipts	44,385	9,293	53,678
Interfund Borrowings	(120,423)	(12,163)	(132,586)
	<u>(76,038)</u>	<u>(2,870)</u>	<u>(78,908)</u>
Cash Flows from Capital and Related Financing Activities			
Grant Revenue	133,330		133,330
Debt Retired	(267,399)		(267,399)
Interest Paid	(37,985)		(37,985)
	<u>(172,054)</u>	<u>-</u>	<u>(172,054)</u>
Net Increase in Cash and Cash Equivalents	213,895	25,109	239,004
Cash and Cash Equivalents			
May 1	454,504	106,036	560,540
April 30	<u>\$ 668,399</u>	<u>131,145</u>	<u>799,544</u>
Represented by			
Unrestricted	\$ 328,957	131,145	460,102
Restricted	339,442		339,442
	<u>\$ 668,399</u>	<u>131,145</u>	<u>799,544</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 380,217	72,613	452,830
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Other Operating Expenses	(4,271)	(12,735)	(17,006)
Changes in Assets and Liabilities			
(Increase) Decrease in Accounts Receivables	63,321	(4,730)	58,591
Increase in Prepaid Expenses	(3,990)		(3,990)
Increase (Decrease) in Accounts Payable	13,609	(27,058)	(13,449)
Decrease in Other Liabilities	(5)	(357)	(362)
Net Cash Provided by Operating Activities	<u>\$ 448,881</u>	<u>27,733</u>	<u>476,614</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Fiduciary Net Assets - Fiduciary Funds

April 30, 2012

	Pension Trust Funds	Agency Fund
Assets		
Cash and Cash Equivalents	\$ 217,632	88,975
Investments		
U.S. Treasuries	1,327,431	
U.S. Agencies	2,289,871	
Mutual Funds	476,804	
Municipal Bonds	418,956	
Receivables, Net		
Accrued Interest	41,708	
Accounts		13,718
Total Assets	<u>4,772,402</u>	<u>102,693</u>
Liabilities		
Accounts Payable	3,287	
Deposits		22,986
Due to Other Organizations		74,625
Due to Municipality		5,082
Total Liabilities	<u>3,287</u>	<u>102,693</u>
Net Assets		
Held in Trust for Pension Benefits	<u>\$ 4,769,115</u>	<u>-</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds

Year Ended April 30, 2012

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 311,141
Plan Members	98,887
	<u>410,028</u>
Investment Income	
Investment Income	153,467
Gains/Losses on Investments	143,220
Investment Expense	(18,571)
	<u>278,116</u>
Total Additions	<u>688,144</u>
Deductions	
Benefits	120,567
Administration	49,682
Refunds of Contributions	15,674
	<u>185,923</u>
Total Deductions	<u>185,923</u>
Change in Net Assets	502,221
Net Assets Held in Trust for Pension Benefits	
May 1	<u>4,266,894</u>
April 30	<u>\$ 4,769,115</u>

See accompanying Independent Auditor's Report and Notes to the Financial Statements.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

1. Summary of Significant Accounting Policies

The City of Highwood, Illinois (City) is a municipal corporation, which operates under the Council-Manager form of government. The City's major operations include police and fire safety, highway and street maintenance and reconstruction, building code enforcement, public improvements, community development, planning and zoning, waterworks and sewerage services and general administrative services.

The accounting policies of the City of Highwood, Illinois conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

This report includes all of the funds of the City of Highwood. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government is such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable for the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization, or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

The Police Pension Employees Retirement System (PPERS) is established for the City's police employees. PPERS functions for the benefit of these employees and is governed by a five-member pension board. Two members appointed by the City's Mayor, one pension beneficiary elected by the membership, and two police employees selected by the membership constitute the pension board. The City and the PPERS participants are obligated to fund all PPERS costs based upon actuarial valuations. The State of Illinois is authorized to establish benefit levels and the City is authorized to approve the actuarial assumptions used in the determination of contribution levels. Although it possesses many characteristics of a legally separate government, PPERS is reported as if it were part of the primary government because its sole purpose is to finance and administer the pensions of the City's police employees and because of the fiduciary nature of such activities. PPERS is reported as a pension trust fund. No separate annual financial report is issued for the PPERS.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

A. Reporting Entity (Cont.)

The Firefighters' Pension Employees Retirement System (FPERS) is established for the City's firefighters. FPERS functions for the benefit of these employees and is governed by a five-member pension board. The City's Mayor appoints two people to the board and two fire employees and one retiree are elected by the membership. The City and the FPERS participants are obligated to fund all FPERS costs based upon actuarial valuations. The State of Illinois is authorized to establish benefit levels and the City is authorized to approve the actuarial assumptions used in the determination of contribution levels. Although it possesses many characteristics of a legally separate government, FPERS is reported as if it were part of the primary government because its sole purpose is to finance and administer the pensions of the City's police employees and because of the fiduciary nature of such activities. FPERS is reported as a pension trust fund. No separate annual financial report is issued for the FPERS.

Discretely Presented Component Unit

Highwood Public Library

The government-wide financial statements include the Highwood Public Library (Library) as a component unit. The Library is a legally separate organization. The Board of the Library is appointed by the Mayor with the approval of the City Council. The Library's budget and tax levy is subject to approval by the City Council. As a component unit, the Library's financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended April 30, 2012. The Library does not issue separate financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

B. Government-Wide and Fund Financial Statements (Cont.)

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
- b. The same element of the individual governmental or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

The **TIF Debt Service Fund** accounts for resources accumulated and payments made for principal and interest on long-term debt.

The **Capital Projects Fund** accounts for financial resources, primarily bond proceeds, used for various capital projects related to the waterworks system and the streets of the City.

The City reports the following major enterprise fund:

The **Waterworks and Sewerage Fund** accounts for operations of the water and sewer system.

The City reports the following nonmajor governmental and enterprise funds:

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Motor Fuel Tax Fund
E-911 Fund

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

B. Government-Wide and Fund Financial Statements (Cont.)

Fund Financial Statements (Cont.)

Capital Projects Funds – used to account for financial resources to be used for the acquisition or construction of equipment and/or major capital facilities.

TIF Capital Projects Fund

Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services, and must be used for activities which meet certain debt or cost recovery criteria.

Garbage Fund

In addition, the City reports the following fund types:

Pension (and other employee benefit) trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.

Police Pension Fund

Firefighters' Pension Fund

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Escrow Fund

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Cont.)

Government-Wide Financial Statements (Cont.)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of income taxes. Income taxes received after 60 days will be considered as available in order to properly reflect 12 months of revenue in the financial statements. The current fiscal problems facing the State of Illinois have caused delays in these payments. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures, or rent collected in advance of the period earned. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Cont.)

Fund Financial Statements (Cont.)

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. The 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 the Water and Sewer Fund are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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/expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents,

Illinois Statutes authorize the City to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

Pension funds may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, and the Illinois insurance company general and separate accounts, mutual funds and equity securities. The police pension fund's investment policy allows investments in all of the above listed accounts, but does not exclude any repurchase agreements. The firefighters' pension fund allows funds to be invested in any type of security authorized by the Illinois Pension Code. The City has adopted an investment policy. That policy follows the state statute for allowable investments.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Deposits and Investments (Cont.)

Interest Rate Risk – The City's investment policy states that public funds shall be invested in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. More specifically, the Treasurer shall attempt to match the City's investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer will not directly invest in securities maturing more than 2 years from the date of purchase. Reserve funds may be invested in securities exceeding 2 years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The City's investment in the Illinois Funds has an average investment maturity of less than one year. The police pension's investment policy states that a maximum of 40% of the bond portfolio may have maturities of 15 years or more. The firefighters' pension investment policy states that investments shall be undertaken in a manner that seeks to ensure the preservation of capital. Secondly, the investment portfolio shall remain sufficiently liquid to enable the pension fund to pay all necessary benefits and meet all operating requirements which might be reasonably anticipated. Lastly, assets shall be invested to achieve attractive real rates of return. The duration of the investment must coincide with the cash flow requirements of the Fund to meet short-term and long-term needs.

Credit Risk – State statutes limit the investments in commercial paper to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The City's investment policy does not further limit investment instrument choices.

Concentration of Credit Risk – The City's investment policy states that the investment portfolio shall be diversified based on the type of funds invested and the cash flow needs of those funds. The police pension's investment policy states that the following asset allocation ranges should be followed:

	Minimum	Target	Maximum
Equities (Separate Account)	10.0%	10.0%	10.0%
Fixed Income	65.0%	88.5%	89.0%
Cash	1.0%	1.5%	25.0%

Furthermore, no more than 40% of the fixed income portfolio will be in zero coupon bonds.

The firefighters' pension investment policy requires diversification of the fixed income portfolio.

Custodial Credit Risk - Deposits – The City's and police pension's investment policy states that funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent, third party institution in the name of municipality.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Deposits and Investments (Cont.)

Custodial Credit Risk - Investments – The City's investment policy states that securities will be held by an independent third party custodian designated by the Treasurer and evidenced by safekeeping receipts and a written custodial agreement. The police pension's investment policy states that all investments are to be clearly held and accounted for to indicate ownership by the Board. Custody at a national brokerage firm is allowed if the account is insured by the Security Investor Protection Corp. (SIPC). Additional amounts of insurance will be necessary to cover the total value of the pension fund. The Firefighters' pension investment policy requires that investments of the Fund shall be held in a custodial trust account for the benefit of the Fund at a commercial bank located in the State of Illinois. Safekeeping account receipts will be held by the City.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank statement balance and carrying value is due to outstanding checks and/or deposits in transit.

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. The fair value of the positions in the pool is the same as the value of the pool shares. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. The Fund has an affirmed AAAM Standard & Poor's credit quality rating. The fund issues a publically available financial report which may be obtained from the State of Illinois Treasurer, Illinois Funds Administrative Office, 300 W. Jefferson, Springfield, Illinois 62702.

Receivables

Property taxes for levy year 2011 attaches as an enforceable lien on January 1, 2011, on property values assessed as of the same date. Taxes are levied by December following the lien date (by passage of a Tax Levy Ordinance). The 2012 tax levy, which attached as an enforceable lien on the property as of January 1, 2012, has not been recorded as a receivable and deferral as of April 30, 2012, as the tax has not yet been levied by the City and will not be levied until December 2012, and therefore, the levy is not measurable at April 30, 2012.

Tax bills are prepared by Lake County and issued on or about June 1, and are payable in two installments, on or about July 1, and September 1, or within 30 days of the tax bills being issued.

The County collects such taxes and remits them periodically. The 2011 property tax levy is recognized as a receivable and deferral in fiscal 2012, net the allowance for uncollectible. As the taxes become available to finance current expenditures, they are recognized as revenues. At April 30, 2012, the property taxes receivable and deferred tax revenue consisted of the estimated amount collectible from the 2011 levy.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Receivables (Cont.)

Based on experience with real estate tax collections in past, the City does not record an allowance for uncollectible accounts.

Interfunds

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payable between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as internal balances.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$10,000 for general capital assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	10-50 Years
Equipment and Vehicles	4-20 Years
Infrastructure	20-50 Years

The City did not maintain adequate records to report capital assets activity during fiscal year ended April 30, 2012; therefore, the City has not reported additions, deletions or depreciation in these financial statements.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Capital Assets (Cont.)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at April 30, 2012, are determined on the basis of current salary rates and include salary related payments. The City did not maintain adequate records to support the activity of the outstanding balances of compensated absences disclosed in Note 9.

Long-Term Obligations

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. The liability for claims and judgments is only reported in governmental funds if it has matured. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. Refer to Note 13 for Commitments and Contingencies.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. **Invested in Capital Assets, Net of Related Debt** - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted Net Assets** - Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted Net Assets** - All other net assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

During the year ended April 30, 2012, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and by clarifying the existing governmental fund type definitions. Previously, fund balance of governmental funds was divided into three categories - reserved, unreserved/designated and unreserved/undesignated. The new reporting requirement eliminated those categories and replaced them with five new categories that are described below.

There are five classifications of fund balance:

- (1) Nonspendable – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- (2) Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- (3) Committed – amounts constrained to specific purpose by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

1. Summary of Significant Accounting Policies (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Fund Financial Statements (Cont.)

- (4) Assigned – amounts a government intends to use for a specific purpose. Intent can be expressed by the City Manager.
- (5) Unassigned – amounts that are available for any purpose. These amounts are only reported in the General Fund, except for deficit balances in other funds.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Budget amounts are as originally adopted by the Board of Trustees. All annual appropriations lapse at fiscal year end.

Prior to April 30, the Finance Director submits to the City Council a proposed operating budget for the fiscal year commencing May 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to July 31, the budget is legally enacted through passage of an ordinance. Formal budgetary integration is employed as a management control device during the year of the General Fund, debt service, special revenue and enterprise funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The appropriated budget is prepared by fund, function, and department. Before final action is taken on the appropriation ordinance, the City Council may revise, alter, increase or decrease the items contained therein. All appropriations lapse at year end.

B. Deficit Balances

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of April 30, 2012, no individual funds report a deficit balance.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

3. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets and balance sheet as cash and investments. In addition, investments are separately held by several of the City's funds. The deposits and investments of the pension trust funds are held separately from those of other funds.

The City's deposits and investments at year end were comprised of the following:

	Carrying Value	Bank/Broker Statement Balances
Deposits	\$ 6,104,166	5,952,193
Illinois Funds	281,948	282,065
Investments	4,513,062	4,513,062
Petty Cash	600	600
	<u>\$ 10,899,776</u>	<u>10,747,920</u>

Reconciliation to financial statements:

Per Statement of Net Assets	
Unrestricted Cash and Investments	\$ 2,571,282
Restricted Cash and Investments	3,508,825
Per Statement of Net Assets - Fiduciary Funds	
Cash	217,632
U.S. Government and Agency Obligations	3,617,302
Mutual Funds	476,804
Municipal Bonds	418,956
Agency Fund	<u>88,975</u>
	<u>\$ 10,899,776</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City.

Deposits – As of April 30, 2012, none of the City's total bank balances were exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have any investments exposed to custodial credit risk.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

3. Deposits and Investments (Cont.)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

All of the pensions' investments subject to credit risk had either AAA, AA+, or "AA ratings with their applicable rating agency, except for the following Municipal Bonds: DeKalb, IL rated AA-, Melrose Park, IL rated BBB. The value of the DeKalb, IL and Melrose Park, IL Bonds at April 30, 2012 were \$21,991 and \$26,677, respectively.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At April 30, 2012, the City did not have any one individual investment (other than those issued or guaranteed by the U.S. Government) that represented more than 5% of its overall portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of April 30, 2012, the City's investments in the Illinois Funds were due within one year.

The pension funds' investments subject to interest rate risk were as follows:

Police Pension

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	Over 10
U.S. Treasuries	\$ 622,120	25,070	438,464	158,586	
U.S. Agencies	1,141,086	45,843	555,679	474,596	64,968
Municipal Bonds	219,983		112,934	75,363	31,686
	<u>\$ 1,983,189</u>	<u>70,913</u>	<u>1,107,077</u>	<u>708,545</u>	<u>96,654</u>
	Fair Value	Equities			
Mutual Funds	<u>\$ 229,240</u>	<u>229,240</u>			

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

3. Deposits and Investments (Cont.)

Firefighters' Pension

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	Over 10
U.S. Treasuries	\$ 705,311		295,234	410,077	
U.S. Agencies	1,148,785	178,052	297,457	578,987	94,289
Municipal Bonds	198,973		146,389	20,900	31,684
	<u>\$ 2,053,069</u>	<u>178,052</u>	<u>739,080</u>	<u>1,009,964</u>	<u>125,973</u>

	Fair Value	Equities
Mutual Funds	<u>\$ 247,564</u>	<u>247,564</u>

See Note 1.D. for further information on deposit and investment policies.

4. Receivables

	General Fund	TIF Debt Service Fund	Nonmajor and Other Funds	Total
Receivables				
Property Taxes	\$ 977,269	599,281		1,576,550
Sales Tax	111,565			111,565
Utility Tax	16,515			16,515
Intergovernmental - Sales Tax	135,771			135,771
Intergovernmental - Telecom	47,633			47,633
Intergovernmental - Use Tax	5,689			5,689
Intergovernmental - Income	229,133			229,133
Intergovernmental - Replacement	1,249			1,249
Motor Fuel Tax			10,498	10,498
Accounts	71,842		3,674	75,516
	<u>\$ 1,596,666</u>	<u>599,281</u>	<u>14,172</u>	<u>2,210,119</u>

All of the receivables on the balance sheet are expected to be collected within one year.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

4. Receivables (Cont.)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Property Taxes Receivable for Subsequent Year	\$	1,576,550	1,576,550
Telecom Tax	14,523		14,523
Sales Tax	82,696		82,696
Rental Income Received in Advance		127,226	127,226
Total Deferred/Unearned Revenue for Governmental Funds	\$ 97,219	1,703,776	1,800,995

5. Restricted Assets

The following represent the balances of the restricted assets:

Bond Reserve Account - Used to report resources set aside to make up potential future deficiencies in the debt service account.

Unspent Bond Proceeds - Unspent portion of 2010 A and B Series Bonds.

Deposits in Escrow - Unspent portion of 2010 A and B Series Bonds held in escrow in connection with projects being executed under intergovernmental agreements.

Following is a list of restricted assets at April 30, 2012:

	Restricted Assets	Noncurrent Liabilities Payable from Restricted Assets	Restricted Net Assets
<u>Governmental Activities</u>			
Unspent Bond Proceeds	\$ 1,471,383	(1,471,383)	
Deposits in Escrow	1,698,000	(1,698,000)	
<u>Business-Type Activities</u>			
Bond Reserve Account	339,442	(339,442)	
Total	\$ 3,508,825	(3,508,825)	-

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

6. Capital Assets

A. Governmental Activities

The City did not maintain adequate records to report capital assets in the current or prior year. Therefore, no activity, including depreciation, has been reported in either entity-wide or enterprise fund financial statements. Following is the balance carried forward from the beginning of the year which has been included in the Statement of Net Assets:

	Balances May 1	Additions	Deletions	Balances April 30
Capital Assets Not Being Depreciated				
Land	\$ 678,443			678,443
Capital Assets Being Depreciated				
Buildings and Improvements	2,812,435			2,812,435
Equipment and Vehicles	4,442,299			4,442,299
Infrastructure	4,163,818			4,163,818
	11,418,552	-	-	11,418,552
Less Accumulated Depreciation for				
Buildings and Improvements	1,732,392			1,732,392
Equipment and Vehicles	4,442,299			4,442,299
Infrastructure	1,852,731			1,852,731
	8,027,422	-	-	8,027,422
Total Capital Assets Being Depreciated, Net	3,391,130	-	-	3,391,130
Governmental Activities Capital Assets, Net	\$ 4,069,573	-	-	4,069,573

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

6. Capital Assets

B. Business-Type Activities

A summary of changes in capital assets for business-type activities of the City is as follows (see Note 6.A.):

	Balances May 1	Additions	Deletions	Balances April 30
Capital Assets Not Being Depreciated				
Land	\$ 83,196			83,196
Capital Assets Being Depreciated				
Buildings and Improvements	1,045,984			1,045,984
Machinery and Equipment	231,730			231,730
Waterworks and Sewerage System	4,784,021			4,784,021
	<u>6,061,735</u>	-	-	<u>6,061,735</u>
Less Accumulated Depreciation for				
Buildings and Improvements	667,463			667,463
Machinery and Equipment	231,730			231,730
Waterworks and Sewerage System	1,548,255			1,548,255
	<u>2,447,448</u>	-	-	<u>2,447,448</u>
Total Capital Assets Being Depreciated, Net	<u>3,614,287</u>	-	-	<u>3,614,287</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,697,483</u>	-	-	<u>3,697,483</u>

7. Interfund Transactions

A. Interfund Receivables/Payables

The principal purpose of these interfunds is to cover temporary cash overdrafts. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the statement of net assets, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

7. Interfund Transactions (Cont.)

A. Interfund Receivables/Payables (Cont.)

The following is a schedule of interfund receivables and payables:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	\$ 12,670
Capital Projects Fund	General	31,619
Nonmajor Governmental Funds	General	22,646
Water and Sewer	General	519
Nonmajor Governmental Funds	Water and Sewer	1,026
Water and Sewer	Nonmajor Governmental Funds	1,041
Nonmajor Enterprise Fund	Nonmajor Governmental Funds	<u>190</u>
Total - Fund Financial Statements		69,711
Less: Government-wide Eliminations		<u>(68,987)</u>
Total Internal Balances - Government-wide Statement of Net Assets		<u>\$ 724</u>
Agency	General	<u>\$ 5,082</u>

All amounts are due within one year.

B. Transfers

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General	Water	\$ 51,210	To pay for Water Fund expenses paid by the General Fund in the prior year.
TIF Debt Service	TIF Capital Projects	<u>13,665</u>	To reimburse the TIF Debt Service Fund for excess amounts transferred to the TIF Capital Projects Fund.
		<u>64,875</u>	

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

8. Short-Term Debt Obligation

The City had a line of credit with Lake Forest Bank and Trust Company in the amount of \$500,000. The maturity date was August 5, 2011. The beginning balance of \$340,095 was retired during the fiscal year. As of April 30, 2012, no balance remained on the line of credit and the line of credit was no longer available to the City.

	Beginning Balance	Increases	Decreases	Ending Balance
Bank Line of Credit Payable	\$ 340,095		340,095	

9. Long-Term Debt Obligations

Long-term Obligations activity for the year ended April 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
<u>Governmental Activities</u>					
Bonds and Notes Payable					
Alternative Revenue Bonds	\$ 3,035,472	* 38,165	130,000	2,943,637	160,000
2010A General Obligation Build America Bonds	800,000			800,000	
2010B General Obligation Recovery Zone Economic Development Bonds	3,000,000			3,000,000	
Notes Payable	22,482		10,097	12,385	10,574
Unamortized Bond Discount	(35,397)		(2,603)	(32,794)	
	<u>6,822,557</u>	<u>38,165</u>	<u>137,494</u>	<u>6,723,228</u>	<u>170,574</u>
Other Liabilities					
Vested Compensated Absences**	202,443			202,443	
Net Pension Obligation	38,189	1,687		39,876	
	<u>240,632</u>	<u>1,687</u>	<u>-</u>	<u>242,319</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 7,063,189</u>	<u>39,852</u>	<u>137,494</u>	<u>6,965,547</u>	<u>170,574</u>

* Represents accreted interest on Capital Appreciation Bonds

** Compensated absences have not been adjusted in fiscal 2012.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

9. Long-Term Debt Obligations (Cont.)

	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due Within One Year
<u>Business-Type Activities</u>					
Bonds and Notes Payable					
Alternative Revenue Bonds	\$ 570,000		210,000	360,000	220,000
IEPA Loan	718,408		57,399	661,009	58,863
	1,288,408	-	267,399	1,021,009	278,863
Other Liabilities					
Vested Compensated Absences	8,201			8,201	
Total Governmental Activities					
Long-Term Liabilities	\$ 1,296,609	-	267,399	1,029,210	278,863

The General Fund is expected to pay the Net Pension Obligation. For the governmental activities, the compensated absences are generally liquidated by the General Fund. The City is subject to the Illinois Municipal Code, which limits the amount of certain indebtedness to 8.625% of the most recent available equalized assessed valuation of the City. As of April 30, 2012, the statutory debt limit for the City was \$11,805,246, providing a debt margin of \$4,734,403.

Alternative Revenue Debt

Governmental Activities Alternative Revenue Debt

The Alternative revenue bonds are direct obligations and pledge the full faith and credit of the City. Governmental activities alternative revenue bonds are payable from revenues derived from Tax Incremental Revenues and are paid by the TIF Debt Service Fund. Business-type activities alternative revenue bonds are payable only from revenues derived from the operation of the Waterworks and Sewerage Fund.

Alternative revenue debt payable at April 30, 2012, consists of the following:

Governmental Activities Alternative Revenue Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance April 30, 2012
Series 2002	2002	1/1/2022	3.70%-5.10%	\$ 2,330,000	\$ 2,210,000
Series 2002 CAB	2002	1/1/2021	4.00%-5.40%	624,207	733,637
Total Governmental Activities - Alternative Revenue Debt					<u>\$ 2,943,637</u>

Business-Type Activities Alternative Revenue Debt

Business-Type Activities Alternative Revenue Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 4/30/2012
Series 2004	2004	5/1/2014	1.30%-3.70%	\$ 1,860,000	<u>\$ 360,000</u>

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

9. Long-Term Debt Obligations (Cont.)

General Obligation Debt

Governmental Activities General Obligation Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and improvements. General obligation bonds have been issued for general governmental activities.

General Obligation debt payable at April 30, 2012, consists of the following:

Governmental Activities Alternative Revenue Debt	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 4/30/2012
Series 2010A	2011	12/1/2019	3.22%-4.72%	\$ 800,000	\$ 800,000
Series 2010B	2011	12/1/2033	5.62%-6.84%	3,000,000	3,000,000
Total Governmental Activities - General Obligation Debt					<u>\$ 3,800,000</u>

Debt service requirements to maturity are as follows:

Year	Governmental Activities Alternative Revenue Source		Business-Type Activities Alternative Revenue Source	
	Principal	Interest	Principal	Interest
2013	\$ 160,000	106,325	220,000	13,100
2014	195,000	102,925	140,000	5,180
2015	230,000	98,360		
2016	265,000	92,555		
2017	195,000	85,213		
2018-2022	2,110,000	248,610		
	<u>\$ 3,155,000</u>	<u>733,988</u>	<u>360,000</u>	<u>18,280</u>

Year	2010A General Obligation Build America Bonds			2010B General Obligation Recovery Zone Economic Development Bonds		
	Principal	Gross Interest	Net Interest*	Principal	Gross Interest	Net Interest**
2013	\$	33,560	21,814		190,926	105,009
2014		33,560	21,814		190,926	105,009
2015	140,000	33,560	21,814		190,926	105,009
2016	140,000	29,052	18,883		190,926	105,009
2017	150,000	24,544	15,954		190,926	105,009
2018-2022	370,000	30,916	20,096	430,000	934,679	514,073
2023-2027				940,000	731,797	402,489
2028-2032				1,120,000	409,374	225,156
2033-2034				510,000	52,668	28,967
	<u>\$ 800,000</u>	<u>185,192</u>	<u>120,375</u>	<u>3,000,000</u>	<u>3,083,148</u>	<u>1,695,730</u>

* Net interest represents a reduction due to Build America Bonds subsidy at 35%.

** Net interest represents a reduction due to Recovery Zone Economic Development Bonds subsidy at 45%.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

9. Long-Term Debt Obligations (Cont.)

Other Bonds or Notes or Loans Payable

Governmental Activities - Other Bonds or Notes or Loans Payable	Date of Issue	Original Indebtedness	Final Maturity	Interest Rates	Balance April 30, 2012
Note Payable of 2009	2009	\$ 48,685	6/30/2013	4.62%	<u>\$ 12,385</u>

Business-Type Activities - Other Bonds or Notes or Loans Payable	Date of Issue	Original Indebtedness	Final Maturity	Interest Rates	Balance April 30, 2012
Illinois Environmental Protection Agency (IEPA) Loan Payable of 2002	2002	\$ 1,170,000	12/30/2021	Various	<u>\$ 661,009</u>

Debt service requirements to maturity are as follows:

Year	Governmental Activities Other Bonds or Notes or Loans Payable		Business-Type Activities Other Bonds or Notes or Loans Payable	
	Principal	Interest	Principal	Interest
2013	\$ 10,574	350	58,863	16,386
2014	1,811	11	60,364	14,885
2015			61,904	13,345
2016			63,484	11,765
2017			65,103	10,146
2018-2022			351,291	24,953
	<u>\$ 12,385</u>	<u>361</u>	<u>661,009</u>	<u>91,480</u>

10. Highwood Public Library – Component Unit

This report contains the Highwood Public Library (Library), which is included as a component unit. Financial information is presented as a discrete column in the statement of net assets and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

A. Basis of Accounting/Measurement Focus

The Library follows the modified accrual basis of accounting and the flow of economic resources measurement focus.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

10. Highwood Public Library – Component Unit (Cont.)

B. Deposits and Investments

	Carrying Value	Statement Balance
The Illinois Funds	<u>\$ 288,009</u>	<u>\$ 293,272</u>

C. Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Library's deposits may not be returned to the Library.

Investments

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

The Library does not have any investments exposed to custodial credit risk.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of April 30, 2012, the Library's investments in the Illinois Funds were all due within one year.

See Note 1.D for further information on deposit and investment policies.

E. Capital Assets

The City and Library did not maintain adequate records to report capital assets in the current or prior year. Therefore, no activity, including depreciation, has been reported in the component unit's statements.

	Beginning Balance	Additions	Deletions	Ending Balance	Useful Lives (Years)
Building and Improvements	\$ 983,126			983,126	50
Less: Accumulated Depreciation	<u>(605,582)</u>			<u>(605,582)</u>	
	<u>\$ 377,544</u>	-	-	<u>377,544</u>	

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

11. Defined Benefit Pension Plans

The City participates in three contributory retirement plans. The Illinois Municipal Retirement Fund (a state-wide plan) covers substantially all full-time employees, except law enforcement officers and firefighters. Law enforcement officers are covered under the Police Pension Plan and firefighters are covered under the Firefighters' Pension Plan.

A. Illinois Municipal Retirement Fund

Plan Description

The City contributes to the Illinois Municipal Retirement Fund (IMRF), which provides retirement (including early retirement), disability and death benefits to plan members and beneficiaries. IMRF is a defined benefit agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for local governments and school districts in Illinois. All employees hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members. The Illinois Pension Code establishes the benefit provisions of the plan which can only be amended by the Illinois General Assembly. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.imrf.org/pubs/ or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Funding Policy

As set by State statute, regular plan members are required to contribute 4.50% of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The City contribution rate for calendar year 2011 was 10.09% of annual covered payroll. 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, Net Pension Obligation and Actuarial Assumptions

For December 31, 2011, the City's actual contributions were \$62,544. The annual pension cost was \$62,544. The required contribution for 2011 was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method.

The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative and direct investment expenses); (b) projected salary increases of 4% a year attributable to inflation; (c) additional projected salary increases ranging from .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 IMRF plan assets was determined using techniques that smooth 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 employer plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at the December 31, 2009 valuation was 30 years.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

A. Illinois Municipal Retirement Fund (Cont.)

Annual Pension Cost, Net Pension Obligation and Actuarial Assumptions (Cont.)

As of December 31, 2011, the most recent actuarial valuation date, the Regular Plan was 83.92% funded. The actuarial accrued liability was \$2,635,602, and the actuarial value of assets was \$2,211,696, resulting in an unfunded actuarial accrued liability of \$423,906. The covered payroll for 2011 was \$619,865 and the ratio of the UAAL to the covered payroll was 68.00%.

In addition, certain public safety employees were previously covered by the IMRF Sheriff's Law Enforcement Personnel (SLEP) Plan. The SLEP Plan was 135.83% funded. Actuarial accrued liability was \$34,526 and actuarial value of assets was \$46,897, resulting in an overfunded actuarial accrued liability of \$12,371.

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

Three-Year Trend Information for the Regular Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2010	\$ 62,544	100.00%	0
12/31/2010	80,887	100.00%	0
12/31/2009	52,694	100.00%	0

Three-Year Trend Information for the SLEP Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2011	\$	100.00%	0
12/31/2010	6,227	100.00%	0
12/31/2009	9,321	100.00%	0

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

B. Police Pension

Plan Description and Provisions

The Police Pension Plan, which is a defined benefit single-employer pension plan, covers all sworn police personnel. Although this is a single-employer pension plan, the defined benefits and employee and employer contribution 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 Police Pension Plan as a pension trust fund. The Police Pension Plan does not issue stand-alone financial reports.

The Police Pension Plan provides retirement benefits, as well as death and disability benefits. Employees attaining the age of 50, with 20 or more years of creditable service, are entitled to receive an annual retirement benefit of one-half of the monthly salary attached to the rank held in the police service at the date of retirement. The monthly pension shall be increased by 2.5% of such monthly salary for each additional year of service over 30 years of service to a maximum of 75% of such monthly salary. Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced retirement 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% of the originally granted pension.

The City's payroll for employees covered by the Police Pension Plan for the year ended April 30, 2012 was \$597,167. At April 30, 2012, the Police Pension Plan's membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits but Not Yet Receiving Them	6
Current Employees	
Vested	5
Nonvested	<u>5</u>
Total	<u><u>16</u></u>

Summary Significant Accounting Policies

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Fixed income securities are reported at fair value. Short-term investments are reported at fair value. Investment income is recognized when earned. Gains and losses on sales and exchanges of fixed income securities are recognized on the trade date. Fair values are derived from published sources.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements

April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

B. Police Pension (Cont.)

Summary Significant Accounting Policies (Cont.)

Contributions - The Fund's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due.

Covered employees are required to contribute 9.91% 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. By the year 2040, the City's contributions must accumulate to the point where the past service cost for the Police Pension Plan is 90% funded.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of one-half of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., 1/2% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% or one-half of the change in the Consumer Price Index for the proceeding calendar year.

Concentration of Investments – The Police Pension Fund did not have any investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits).

C. Firefighters' Pension Plan

Plan Description and Provisions

The City contributes to the Firefighters' Pension Plan, a single-employer defined benefit pension plan covering fire sworn personnel. Although this is a single-employer pension plan, the defined benefits as well as the employee and employer contribution 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 Firefighters' Pension Plan as a pension trust fund. The Firefighters' Pension Plan does not issue a separate stand-alone financial report.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

C. Firefighters' Pension Plan (Cont.)

Plan Description and Provisions (Cont.)

The Firefighters' Pension Plan provides retirement benefits as well as death and disability benefits. Employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit equal to one-half the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension is increased by one-twelfth of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service to a maximum of 75% of such monthly salary. Employees with at least 10 years, but less than 20 years, of credited service may retire at or after age 60 and receive a reduced retirement benefit. The monthly pension of a firefighter who retires 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 of 55, by 3% of the original pension and 3% annually thereafter.

The City's payroll for employees covered by the Firefighters' Pension Plan for the year ended April 30, 2012 was \$443,025. At April 30, 2012, the Firefighters' Pension Plan's membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits but Not Yet Receiving Them	4
Current Employees	
Vested	4
Nonvested	<u>3</u>
Total	<u>11</u>

Summary Significant Accounting Policies

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Fixed income securities are reported at fair value. Short-term investments are reported at fair value. Investment income is recognized when earned. Gains and losses on sales and exchanges of fixed income securities are recognized on the trade date. Fair values are derived from published sources.

Contributions - The Fund's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due.

Covered employees are required to contribute 9.455% of their base 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 accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan, as actuarially determined by an enrolled actuary. By the year 2040, the City's contributions must accumulate to the point where the past service cost for the Firefighters' Pension Plan is 90% funded.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

C. Firefighters' Pension Plan (Cont.)

Summary Significant Accounting Policies (Cont.)

Contributions (Cont.) -

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Firefighters' salary for pension purposes is capped at \$106,800, plus the lesser of one-half of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., 1/2% for each month under 55). The monthly benefit of a Tier 2 firefighter shall be increased annually at age 60 on the January 1st after the firefighter retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% or one-half of the change in the Consumer Price Index for the proceeding calendar year.

Concentrations of Investments - The Firefighters' Pension Fund did not have any investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

D. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

Computation of Net Pension Obligation (Asset) at April 30, 2012

	Police Pension	Firefighters' Pension	Total
Annual Required Contribution	\$ 167,270	125,685	292,955
Interest on the NPO	2,578	602	3,180
Adjustments to the ARC	(1,520)	(355)	(1,875)
Annual Pension Cost	168,328	125,932	294,260
Contributions Made	166,641	144,500	311,141
Change in the Net Pension Obligation (Asset)	1,687	(18,568)	(16,881)
Net Pension Obligation at May 1, 2011	38,189	8,912	47,101
Net Pension Obligation (Asset) at April 30, 2012	\$ 39,876	(9,656)	30,220

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
 April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

F. Significant Actuarial Assumptions

The information presented in the notes and the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

	Illinois Municipal Retirement	Police Pension	Firefighters' Pension
Actuarial Valuation Date	December 31, 2011	April 30, 2012	April 30, 2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market Value	Market Value	Market Value
Amortization Method	Level Percentage of Projected Payroll - Closed Basis	Level Percentage of Projected Payroll - Closed Basis	Level Percentage of Projected Payroll - Closed Basis
Significant Actuarial Assumptions			
(a) Remaining Amortization Period (Years)	30	29	29
(b) Rate of Return on Investment of Present and Future Assets	7.50% Compounded Annually	6.50% Compounded Annually	6.75% Compounded Annually
(c) Projected Salary Increases - Attributable to Inflation	4.00% Compounded Annually	5.50% Compounded Annually	5.50% Compounded Annually
(d) Additional Projected Salary Increases - Attributable to Seniority/Merit	0.4% to 10.0%	<i>(Note: Separate Information for (c) and (d) not available)</i>	
(e) Postretirement Benefit Increases	3.00%	3.00% Compounded Annually	3.00% Compounded Annually

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

11. Defined Benefit Pension Plans (Cont.)

G. Funding Status at April 30, 2012

Plan	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
Illinois Municipal Retirement	\$ 2,211,696	2,635,602	423,906	83.92%	619,865	68.39%
IMRF - SLEP	46,897	34,526	(12,371)	135.83%		100.00%
Police Pension	2,292,720	3,603,045	1,310,325	63.63%	597,167	219.42%
Firefighters' Pension	2,476,395	3,149,852	673,457	78.62%	431,021	156.25%

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

H. Trend Information

	Fiscal Year	Illinois Municipal Retirement	Police Pension	Firefighters' Pension
Annual Pension Cost	2012	\$ 62,544	168,328	125,932
	2011	80,877	199,483	143,733
	2010	52,694	189,969	117,593
Percent Contributed	2012	100%	99.00%	100.30%
	2011	100%	83.50%	99.90%
	2010	100%	100.40%	100.30%
Net Pension Obligation (Asset)	2012		39,876	(9,656)
	2011		38,189	8,912
	2010		5,226	8,804

12. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are provided for through participation in the Illinois Municipal League Risk Management Association and private insurance coverage. The City has purchased insurance from private insurance companies, covered risks included medical, dental, life and other. Premiums have been displayed as expenditures/expenses in appropriate funds. There were no significant changes in insurance coverages from the prior year and settlements did not exceed insurance coverage in any of the past three fiscal years.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

12. Risk Management (Cont.)

Public Entity Risk Pool

The City participates in the Illinois Municipal League Risk Management Association (IMLRA). IMLRA is an organization of municipalities and special districts in Northeastern Illinois, which has formed an association under the Illinois Intergovernmental Cooperation's Statute to pool its risk management needs. The agency administers a mix of self-insurance and commercial insurance coverages; property/casualty and workers' compensation claim administration/litigation management services; unemployment claim administration; extensive risk management/loss control consulting and training programs; and a risk information system and financial reporting service for its members.

Each member appoints one delegate to represent the member on the Board of Directors. The City does not exercise any control over the activities of the Association beyond its representation on the Board of Directors.

The City participates in the minimum/maximum program with the Association. Initial contributions are determined each year based on administrative expenses plus 80% of the normal loss fund. Annually the claims of members participating in the program are reviewed and when the City's paid claims dollars exceed 100% of the loss fund, additional amounts will be due from the City up to, but not to exceed 120% of the normal loss fund. The City's payments to IMLRMA are displayed on the financial statements as expenditures/expenses in appropriate funds.

13. Tax Increment Financing Districts

The City of Highwood has established several Tax Increment Redevelopment Project Areas (RPAs) to encourage redevelopment of certain sites for more market oriented commercial uses of the properties that will enhance their value and improve their contributions to the City and its surrounding areas. As part of the redevelopment plans, the City has made significant improvements to utilities, public parking, intersections, and traffic signalization, streets and landscaping. The redevelopment plans also include site preparation, land acquisition and assembly, and demolition/clearance.

Construction and development in the RPAs were the responsibility of developers and are substantially complete. To entice development of the areas, the City created tax increment financing (TIF) districts to finance public improvements made within the RPAs.

Several funds have been established to record the revenues generated in the RPAs that relate directly to servicing the debt issued to make public improvements to the RPAs.

CITY OF HIGHWOOD, ILLINOIS

Notes to the Financial Statements
April 30, 2012

14. Restatements

During the current fiscal year, the City adjusted beginning fund balance and interfund balances to correctly reflect expenditures paid out of the TIF Capital Projects Fund in the prior year. It was determined that these expenditures were ineligible TIF expenditures and should have been paid out of the General Fund. A prior period adjustment has been posted to correctly reflect the fund balances at May 1, 2011 for the General Fund and the TIF Capital Projects Fund.

	Balance at May 1, 2011 as Previously Reported	Restatement	Balance at May 1, 2011 as Restated
General Fund	\$ 61,049	(22,646)	38,403
TIF Capital Projects Fund	73,550	22,646	96,196

15. Subsequent Events

In August 2011, the City conducted an evaluation under the Fair Labor Standards Act. That evaluation identified nine positions in the City that were potentially misclassified. A settlement was reached with three of the employees in October 2012. The City paid out \$211,918 as a result of the settlement. The remaining employees that were misclassified have not filed lawsuits and final settlements have not been negotiated. Initial preliminary estimates of total liability of back pay and penalties for all employees ranged between \$250,000 and \$550,000. Except for the settlement amount mentioned, the ultimate, final outcome remains unknown at the date of this report.

Management has evaluated subsequent events through March 19, 2013, the date which the financial statements were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIGHWOOD, ILLINOIS

Required Supplemental Information

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Property Taxes	\$ 948,771	947,406	(1,365)
Other Taxes	987,000	999,605	12,605
Licenses and Permits	305,500	356,602	51,102
Intergovernmental	958,095	1,096,571	138,476
Charges for Services	887,800	774,549	(113,251)
Fines and Forfeits	116,000	110,868	(5,132)
Interest	1,700	970	(730)
Miscellaneous	183,435	143,699	(39,736)
Total Revenues	<u>4,388,301</u>	<u>4,430,270</u>	<u>41,969</u>
Expenditures			
Current			
General Government	1,062,071	1,018,297	(43,774)
Public Safety	2,476,866	2,426,316	(50,550)
Public Works	550,489	474,610	(75,879)
Culture and Recreation	203,291	132,787	(70,504)
Capital Outlay	277,695	108,076	(169,619)
Debt Service			
Principal		10,097	10,097
Interest	7,500	3,581	(3,919)
Total Expenditures	<u>4,577,912</u>	<u>4,173,764</u>	<u>(404,148)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(189,611)</u>	256,506	446,117
Other Financing Sources			
Transfers In	17,500	51,210	33,710
Proceeds from Sale of Capital Assets	6,000	10,452	4,452
Total Other Financing Sources	<u>23,500</u>	<u>61,662</u>	<u>38,162</u>
Net Change in Fund Balance	<u>\$ (166,111)</u>	318,168	<u>484,279</u>
Fund Balance			
May 1 (as Restated)		<u>38,403</u>	
April 30		<u>356,571</u>	

See accompanying Note to the Required Supplementary Information.

CITY OF HIGHWOOD, ILLINOIS

Note to the Required Supplementary Information
April 30, 2012

Legal Compliance and Accountability

Budgetary Control

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

- i) The City Manager submits to the City Council Members a proposed operating budget for the fiscal year commencing the following May 1. The operating budget includes proposed expenditures and the means of financing them.
- ii) Public hearings are conducted by the City to obtain taxpayer comments.
- iii) Subsequently, the budget is legally enacted through passage of an ordinance.
- iv) Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service, and capital projects funds.
- v) Budgets for the governmental funds for which budgets have been adopted are adopted on a basis consistent with GAAP.
- vi) Budgetary authority lapses at year end.
- vii) State law requires that “expenditures be made in conformity with appropriations/budget.” As under the Budget Act, transfers between line items and departments may be made by administrative action. Amounts to be transferred between funds require City Council approval. The level of legal control is generally the fund budget in total.
- viii) Budgeted amounts are as originally adopted, with the exceptions of City Council-approved transfers which were not material in relation to the budget taken as a whole.
- ix) The City Manger is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that increase the total expenditures of any fund must be approved by the City Council.

Expenditures may not legally exceed the appropriations at the fund level. During the year, no supplemental appropriations were necessary. During the year, no funds had expenditures that exceeded its appropriations.

CITY OF HIGHWOOD, ILLINOIS

Required Supplementary Information

Illinois Municipal Retirement Fund

Schedule of Funding Progress

April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/2011	\$ 2,211,696	2,635,602	423,906	83.92 %	619,865	68.39 %
12/31/2010	2,064,846	2,399,137	334,291	86.07	746,097	44.81
12/31/2009	1,886,488	2,147,187	260,699	87.86	822,056	31.71
12/31/2008	1,744,188	2,094,211	350,023	83.29	769,289	45.50
12/31/2007	2,098,077	2,015,687	(82,390)	104.09	731,709	(11.26)
12/31/2006	1,865,326	1,802,207	(63,119)	103.50	685,389	(9.21)
12/31/2005	1,641,347	1,579,387	(61,960)	103.92	620,621	(9.98)

On a market basis, the actuarial value of assets as of December 31, 2011 is \$2,126,584. On a market basis, the funded ratio would be 80.69%.

CITY OF HIGHWOOD, ILLINOIS

Required Supplementary Information

IMRF Sheriff's Law Enforcement Personnel Fund

Schedule of Funding Progress

April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/2011	\$ 46,897	34,526	(12,371)	135.83 %		%
12/31/2010	46,713	22,477	(24,236)	207.83	55,551	(43.63)
12/31/2009	35,273	2,544	(32,729)	1,386.52	74,092	(44.17)
12/31/2008	19,313	(11,961)	(31,274)	(161.47)	35,767	(87.44)
12/31/2007	14,376		(14,376)			

On a market basis, the actuarial value of assets as of December 31, 2011 is \$45,548. On a market basis, the funded ratio would be 131.92%.

CITY OF HIGHWOOD, ILLINOIS

Required Supplementary Information

Police Pension Fund

Schedule of Funding Progress

April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
5/1/2011	\$ 2,292,720	3,603,045	1,310,325	63.63 %	597,167	219.42 %
5/1/2010	2,061,401	3,177,105	1,115,704	64.88	525,726	212.22
5/1/2009	1,861,066	2,904,501	1,043,435	64.08	567,861	183.75
5/1/2008	1,598,682	2,751,955	1,153,273	58.09	672,107	171.59
5/1/2007	1,504,144	2,698,517	1,194,373	55.74	631,291	189.20
5/1/2006	1,395,043	2,831,873	1,436,830	49.26	560,355	256.41
5/1/2005	1,173,505	2,522,388	1,348,883	46.52	461,881	292.04

CITY OF HIGHWOOD, ILLINOIS

Required Supplementary Information

Firefighters' Pension Fund

Schedule of Funding Progress

April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
5/1/2011	\$ 2,476,395	3,149,852	673,457	78.62 %	431,021	156.25 %
5/1/2010	2,205,453	2,914,491	709,038	75.67	481,019	147.40
5/1/2009	1,976,913	2,522,861	545,948	78.36	443,025	123.23
5/1/2008	1,728,065	2,361,523	633,458	73.18	494,424	128.12
5/1/2007	1,653,853	2,098,150	444,297	78.82	428,628	103.66
5/1/2006	1,584,019	1,977,168	393,149	80.12	368,998	106.55
5/1/2005	1,375,906	2,083,172	707,266	66.05	450,403	157.03

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

MAJOR GOVERNMENTAL FUNDS

CITY OF HIGHWOOD, ILLINOIS

General Fund

Schedule of Revenues - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual
Taxes		
Property Tax	\$ 948,771	947,406
Non-Home Rule Sales Tax	570,000	580,846
Utility Taxes	417,000	418,759
	1,935,771	1,947,011
Licenses and Permits		
Licenses	259,000	326,149
Permits	46,500	30,453
	305,500	356,602
Intergovernmental		
Income Tax	394,565	457,945
Sales Tax	475,000	486,093
Replacement Tax	8,430	8,423
Fire Insurance Tax (2% Fire Dues)	5,500	5,719
Local Use Tax	74,600	78,830
Grants		59,561
	958,095	1,096,571
Charges for Services		
Developers Fees		1,669
Parking Fees	54,500	49,421
Cable Franchise Fees	38,000	44,787
Zoning and Planning Fees	45,900	57,050
Rental Fees	329,000	326,021
Ambulance Fees	58,000	44,967
Transfer Fee	25,000	14,895
Alarm Systems and Calls	20,000	7,663
Seized Autos	50,000	46,606
Refunds and Reimbursements	43,100	17,031
Park Recreation Fees	200,000	131,657
2H Agreement	15,000	21,288
Miscellaneous Fees and Fines	9,300	11,494
	887,800	774,549
Fines and Forfeits		
Police Fines	41,000	35,798
Court Fines	75,000	75,070
	116,000	110,868
Interest		
Investment Income	1,700	970

(Cont.)

CITY OF HIGHWOOD, ILLINOIS

General Fund

Schedule of Revenues - Budget and Actual (Cont.)

Year Ended April 30, 2012

	Original and Final Budget	Actual
Miscellaneous		
Special Event Revenue	57,075	142,401
Donations		48
Miscellaneous Income	126,360	1,250
	<u>183,435</u>	<u>143,699</u>
 Total Revenue	 <u>\$ 4,388,301</u>	 <u>4,430,270</u>

CITY OF HIGHWOOD, ILLINOIS

General Fund

Schedule of Expenditures - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual
General Government		
Administration and Legal		
Personnel	\$ 340,406	260,358
Contractual Services	457,945	478,553
Materials and Supplies	7,850	7,275
Special Events		103
Miscellaneous	171,720	191,601
	<u>977,921</u>	<u>937,890</u>
 Building, Zoning and Health Department		
Personnel	62,000	40,296
Contractual Services	20,350	25,206
Materials and Supplies	300	4,272
Miscellaneous	1,500	10,633
	<u>84,150</u>	<u>80,407</u>
 Capital Outlay		
Equipment - General Administration	5,000	
	<u>5,000</u>	
 Total General Government	 <u>1,067,071</u>	 <u>1,018,297</u>
 Public Safety		
Police Department		
Personnel	914,440	929,816
Contractual Services	198,300	182,352
Materials and Supplies	33,700	33,960
Miscellaneous	1,500	666
	<u>1,147,940</u>	<u>1,146,794</u>
 Fire Department		
Personnel	1,084,486	1,074,285
Contractual Services	214,240	178,529
Materials and Supplies	26,200	25,474
Miscellaneous	4,000	1,234
	<u>1,328,926</u>	<u>1,279,522</u>
 Capital Outlay		
Police - Equipment	214,360	74,046
Fire	45,835	32,970
	<u>260,195</u>	<u>107,016</u>
 Total Public Safety	 <u>2,737,061</u>	 <u>2,533,332</u>

(Cont.)

CITY OF HIGHWOOD, ILLINOIS

General Fund

Schedule of Expenditures - Budget and Actual (Cont.)

Year Ended April 30, 2012

	Original and Final Budget	Actual
Public Works		
Highways and Streets		
Personnel	341,489	309,017
Contractual Services	135,000	95,441
Street Light Maintenance		2,671
Materials and Supplies	64,500	57,758
Miscellaneous	9,500	9,723
	<u>550,489</u>	<u>474,610</u>
Capital Outlay		
Public Works	12,000	1,060
	<u>12,000</u>	<u>1,060</u>
Total Public Works	<u>562,489</u>	<u>475,670</u>
Culture and Recreation		
Parks and Recreation		
Personnel	70,306	46,201
Contractual Services	38,400	35,360
Supplies and Materials	20,175	7,888
Special Events	67,600	38,111
Miscellaneous	6,810	5,227
	<u>203,291</u>	<u>132,787</u>
Capital Outlay		
Culture and Recreation	500	
	<u>500</u>	
Total Culture and Recreation	<u>203,791</u>	<u>132,787</u>
Debt Service		
Principal		10,097
Interest	7,500	3,581
	<u>7,500</u>	<u>13,678</u>
Total Debt Service	<u>7,500</u>	<u>13,678</u>
Total Expenditures	<u>\$ 4,577,912</u>	<u>4,173,764</u>

CITY OF HIGHWOOD, ILLINOIS

TIF Debt Service Fund (Major Fund)

Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Property Tax	\$ 600,000	592,112	(7,888)
Investment Income	5,000	2,907	(2,093)
Total Revenues	<u>605,000</u>	<u>595,019</u>	<u>(9,981)</u>
Expenditures			
Debt Service			
Principal	130,000	130,000	
Interest	108,665	108,665	
Total Expenditures	<u>238,665</u>	<u>238,665</u>	-
Excess of Revenues over Expenditures	<u>366,335</u>	<u>356,354</u>	<u>(9,981)</u>
Other Financing Sources (Uses)			
Transfers In		13,665	13,665
Transfers Out	(500,000)		500,000
Total Other Financing Sources (Uses)	<u>(500,000)</u>	<u>13,665</u>	<u>513,665</u>
Net Change in Fund Balance	<u>\$ (133,665)</u>	370,019	<u>503,684</u>
Fund Balance			
May 1		<u>1,081,092</u>	
April 30		<u>1,451,111</u>	

CITY OF HIGHWOOD, ILLINOIS

Capital Projects Fund (Major Fund)

Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Intergovernmental			
Grants	\$	370,000	370,000
Investment Income		6,547	6,547
Miscellaneous Income		102,014	102,014
Total Revenues	-	478,561	478,561
Expenditures			
Contractual	23,800	88,704	64,904
Capital Outlay	3,536,454	725,749	(2,810,705)
Interest and Fiscal Agent Fees		237,581	237,581
Total Expenditures	3,560,254	1,052,034	(2,508,220)
Net Change in Fund Balance	<u>\$ (3,560,254)</u>	(573,473)	<u>2,986,781</u>
Fund Balance			
Beginning of Year		<u>3,705,466</u>	
End of Year		<u>3,131,993</u>	

NONMAJOR GOVERNMENTAL FUNDS

CITY OF HIGHWOOD, ILLINOIS

Nonmajor Governmental Funds

Combining Balance Sheet

April 30, 2012

	<u>Special Revenue Funds</u>			Total Nonmajor Government Funds
	Motor Fuel Tax Fund	E-911 Fund	TIF Capital Projects Fund	
Assets				
Cash and Investments	\$ 281,879	60,254	21,395	363,528
Accounts Receivable	10,498	3,674		14,172
Due from Other Funds		1,026	22,646	23,672
Total Assets	\$ 292,377	64,954	44,041	401,372
Liabilities				
Accounts Payable	\$ 15,963	5,506	495	21,964
Due to Other Funds		640	13,261	13,901
Total Liabilities	15,963	6,146	13,756	35,865
Fund Balances				
Restricted				
Road Construction	276,414			276,414
Public Safety		58,808		58,808
Capital Projects			30,285	30,285
Total Fund Balances	276,414	58,808	30,285	365,507
Total Liabilities and Fund Balances	\$ 292,377	64,954	44,041	401,372

CITY OF HIGHWOOD, ILLINOIS

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances

Year Ended April 30, 2012

	Special Revenue Funds		TIF Capital Projects Fund	Total Nonmajor Government Fund
	Motor Fuel Tax Fund	E-911 Fund		
Revenues				
Other Taxes	\$	22,543		22,543
Intergovernmental	160,601	26,700		187,301
Investment Income	238	149	72	459
Total Revenues	160,839	49,392	72	210,303
Expenditures				
Current				
General Government			20,533	20,533
Public Safety		72,262		72,262
Public Works	151,461			151,461
Capital Outlay	13,581	3,104	31,785	48,470
Total Expenditures	165,042	75,366	52,318	292,726
Excess (Deficiency) of Revenues over Expenditures	(4,203)	(25,974)	(52,246)	(82,423)
Other Financing Uses				
Transfers Out			(13,665)	(13,665)
Net Change in Fund Balance	(4,203)	(25,974)	(65,911)	(96,088)
Fund Balance				
May 1 (as Restated)	280,617	84,782	96,196	461,595
April 30	\$ 276,414	58,808	30,285	365,507

CITY OF HIGHWOOD, ILLINOIS

Motor Fuel Tax

Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Intergovernmental			
Motor Fuel Tax	\$ 128,369	160,601	32,232
Miscellaneous Fees and Fines	4,000		(4,000)
Investment Income	800	238	(562)
Total Revenues	<u>133,169</u>	<u>160,839</u>	<u>27,670</u>
Expenditures			
Public Works			
Street Improvements	254,000	151,461	(102,539)
Capital Outlay	2,500	13,581	11,081
Total Expenditures	<u>256,500</u>	<u>165,042</u>	<u>(91,458)</u>
Net Change in Fund Balance	<u>\$ (123,331)</u>	(4,203)	<u>119,128</u>
Fund Balance			
May 1		<u>280,617</u>	
April 30		<u>276,414</u>	

CITY OF HIGHWOOD, ILLINOIS

E-911 Fund

Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Taxes			
911 Surcharge	\$ 49,000	22,543	(26,457)
Intergovernmental Grants		26,700	26,700
Investment Income	475	149	(326)
Total Revenues	<u>49,475</u>	<u>49,392</u>	<u>(83)</u>
Expenditures			
Public Safety			
Materials and Supplies	18,500	16,747	(1,753)
Contractual Services	7,300	607	(6,693)
Emergency Communication (911)	75,000	54,155	(20,845)
Miscellaneous		753	753
Capital Outlay			
Equipment	10,465	3,104	(7,361)
Total Expenditures	<u>111,265</u>	<u>75,366</u>	<u>(35,899)</u>
Net Change in Fund Balance	<u>\$ (61,790)</u>	(25,974)	<u>35,816</u>
Fund Balance			
May 1		<u>84,782</u>	
April 30		<u>58,808</u>	

CITY OF HIGHWOOD, ILLINOIS

TIF Capital Projects Fund

Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues			
Investment Income	\$ 200	72	(128)
Expenditures			
General Government			
Accounting Fees	1,000		(1,000)
Legal Fees		20,533	20,533
Special Events Marketing	20,000		(20,000)
Capital Outlay	601,806	31,785	(570,021)
Total Expenditures	622,806	52,318	(570,488)
Excess (Deficiency) of Revenues over Expenditures	(622,606)	(52,246)	570,360
Other Financing Sources (Uses)			
Transfers In	500,000		(500,000)
Transfers Out		(13,665)	(13,665)
Total Other Financing Sources (Uses)	500,000	(13,665)	(513,665)
Net Change in Fund Balance	<u>\$ (122,606)</u>	(65,911)	<u>56,695</u>
Fund Balance			
Beginning of Year (as Restated)		<u>96,196</u>	
End of Year		<u>30,285</u>	

PROPRIETAY FUNDS

CITY OF HIGHWOOD, ILLINOIS

Waterworks and Sewerage Fund (Major Fund)

Schedule of Revenues, Expenses, and Changes in Net Assets -
Budget and Actual - (GAAP and Budgetary Basis)

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Operating Revenues			
Charges for Services	\$ 895,500	845,433	(50,067)
Operating Expenses			
Personnel	248,689	231,518	(17,171)
Contractual Services	407,650	207,282	(200,368)
Materials and Supplies	37,150	26,416	(10,734)
Total Operating Expenses	693,489	465,216	(228,273)
Operating Income	202,011	380,217	178,206
Nonoperating Revenues (Expenses)			
Interest Income	2,400	1,460	(940)
Grant Revenue	7,000	133,330	126,330
Miscellaneous Income	5,000	11,646	6,646
Miscellaneous Expense	(3,125)	(4,271)	(1,146)
Principal Payments	(286,000)	(267,399)	18,601
Interest Expense	(16,625)	(34,220)	(17,595)
Fiscal Agent Fees	(400)		400
Total Nonoperating Revenues (Expenses)	(291,750)	(159,454)	132,296
Income Before Transfers	(89,739)	220,763	310,502
Other Financing Uses			
Transfers Out	(225,000)	(51,210)	173,790
Changes in Net Assets - Budgetary Basis	\$ (314,739)	169,553	484,292
Reconciliation of Budget Basis Change in Net Assets to GAAP Basis Change in Net Assets			
Change in Net Assets - Budgetary Basis	\$ (314,739)	169,553	484,292
Plus: Principal Payments	286,000	267,399	(18,601)
Change in Net Assets - GAAP Basis	\$ (28,739)	436,952	465,691
Net Assets			
May 1		3,042,895	
April 30		3,479,847	

CITY OF HIGHWOOD, ILLINOIS

Garbage Fund

Schedule of Revenues, Expenses, and Changes in Net Assets -
Budget and Actual

Year Ended April 30, 2012

	Original and Final Budget	Actual	Variance With Final Budget Over (Under)
Operating Revenues			
Charges for Services			
Refuse and Garbage Collection	\$ 247,000	258,200	11,200
Operating Expenses			
Personnel	38,355	20,543	(17,812)
Contractual Services	195,100	163,896	(31,204)
Materials and Supplies	4,000	1,148	(2,852)
Total Operating Expenses	<u>237,455</u>	<u>185,587</u>	<u>(51,868)</u>
Operating Income	<u>9,545</u>	<u>72,613</u>	<u>63,068</u>
Nonoperating Revenues (Expense)			
Interest Income	150	246	96
Miscellaneous Expense	(15,600)	(12,735)	2,865
Total Nonoperating Revenues (Expenses)	<u>(15,450)</u>	<u>(12,489)</u>	<u>2,961</u>
Changes in Net Assets	<u>\$ (5,905)</u>	60,124	<u>66,029</u>
Net Assets			
May 1		<u>72,098</u>	
April 30		<u><u>132,222</u></u>	

FIDUCIARY FUNDS

CITY OF HIGHWOOD, ILLINOIS

Fiduciary Funds

Combining Statement of Fiduciary Net Assets - Pension Trust Funds

April 30, 2012

	Police Pension Fund	Firefighters' Pension Fund	Total
Assets			
Cash and Cash Equivalents	\$ 60,303	157,329	217,632
Investments			
U.S. Treasuries	622,120	705,311	1,327,431
U.S. Agencies	1,141,086	1,148,785	2,289,871
Mutual Funds	229,240	247,564	476,804
Municipal Bonds	219,983	198,973	418,956
Receivables			
Accrued Interest	21,714	19,994	41,708
Total Assets	2,294,446	2,477,956	4,772,402
Liabilities			
Accounts Payable	1,726	1,561	3,287
Net Assets			
Held in Trust for Pension Benefits	\$ 2,292,720	2,476,395	4,769,115

CITY OF HIGHWOOD, ILLINOIS

Fiduciary Funds

Combining Statement of Changes in Fiduciary Net Assets - Pension Trust Funds

Year Ended April 30, 2012

	Police Pension Fund	Firefighters' Pension Fund	Total
Additions			
Contributions			
Employer	\$ 166,641	144,500	311,141
Plan Members	56,627	42,260	98,887
Total Contributions	223,268	186,760	410,028
Investment Income			
Investment Income	74,604	78,863	153,467
Gains/Losses on Investments	70,325	72,895	143,220
Less Investment Expenses	(8,969)	(9,602)	(18,571)
Net Investment Income	135,960	142,156	278,116
Total Additions	359,228	328,916	688,144
Deductions			
Benefits	100,611	19,956	120,567
Administration	27,331	22,351	49,682
Refunds of Contributions		15,674	15,674
Total Deductions	127,942	57,981	185,923
Change in Net Assts	231,286	270,935	502,221
Net Assets			
May 1	2,061,434	2,205,460	4,266,894
April 30	\$ 2,292,720	2,476,395	4,769,115

COMPONENT UNIT

CITY OF HIGHWOOD, ILLINOIS

Component Unit - Library

Statement of Net Assets and Governmental Funds
 Governmental Funds Combining Balance Sheet

April 30, 2012

	General	<u>Adjustments</u> Capital-Related Items*	Statement of Net Assets
Assets			
Cash and Cash Equivalents	\$ 288,009		288,009
Receivables			
Property Taxes	223,102		223,102
Undeposited Funds	30		30
Due from Primary Government	1,342		1,342
Capital Assets		377,544	377,544
		<u>377,544</u>	<u>377,544</u>
Total Assets	<u>\$ 512,483</u>	<u>377,544</u>	<u>890,027</u>
Liabilities			
Accounts Payable	\$ 4,152		4,152
Deferred Revenues	223,102		223,102
Due to Primary Government	4,545		4,545
			<u>4,545</u>
Total Liabilities	<u>231,799</u>	<u>-</u>	<u>231,799</u>
Fund Balances/Net Assets			
Invested in Capital Assets		377,544	377,544
Unassigned/Unrestricted	280,684		280,684
		<u>377,544</u>	<u>280,684</u>
Total Fund Balances/Net Assets	<u>280,684</u>	<u>377,544</u>	<u>658,228</u>
			<u>658,228</u>
Total Liabilities and Fund Balances/ Net Assets	<u>\$ 512,483</u>	<u>377,544</u>	<u>890,027</u>

* Capital activities have not been accounted for in fiscal 2011 and 2012

CITY OF HIGHWOOD, ILLINOIS

Component Unit - Library

Statement of Activities and Governmental Funds Combining
 Statement of Revenues, Expenditures, and Changes in Fund Balances/Net Assets

Year Ended April 30, 2012

	General	<u>Adjustments</u> Capital-Related Items*	Statement of Activities
Revenues			
Property Taxes	\$ 216,573		216,573
Intergovernmental	5,865		5,865
Charges for Services	6,024		6,024
Fines	3,038		3,038
Investment Income	202		202
Miscellaneous	12,209		12,209
Total Revenues	<u>243,911</u>	-	<u>243,911</u>
Expenditures			
Civic and Cultural	<u>236,475</u>		<u>236,475</u>
Net Change in Fund Balances/Net Assets	7,436	-	7,436
Fund Balances/Net Assets			
May 1	<u>273,248</u>	377,544	<u>650,792</u>
April 30	<u>\$ 280,684</u>	377,544	<u>658,228</u>

* Capital activities have not been accounted for in fiscal 2011 and 2012

SUPPLEMENTAL DATA

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

General Obligation Build America
Bonds of 2010A

April 30, 2012

Date of Issue	November 10, 2010
Date of Maturity	December 1, 2019
Authorized Issue	\$ 800,000
Denomination of Bonds	\$ 5,000
Interest Rates	3.22% to 4.72%
Interest Dates	June 1 and December 1
Principal Maturity Date	December 1
Payable at	Amalgamated Bank

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year	Principal	Gross Interest	Net Interest *	Total
2013	\$	33,560	21,814	21,814
2014		33,560	21,814	21,814
2015	140,000	33,560	21,814	161,814
2016	140,000	29,052	18,883	158,883
2017	150,000	24,544	15,954	165,954
2018	150,000	17,464	11,352	161,352
2019	155,000	10,384	6,750	161,750
2020	65,000	3,068	1,994	66,994
	<u>\$ 800,000</u>	<u>185,192</u>	<u>120,375</u>	<u>920,375</u>

* Net interest represents a reduction due to Build America Bonds subsidy at 35%.

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

General Obligation Recovery Zone
Economic Development Bonds of 2010B

April 30, 2012

Date of Issue	November 10, 2010
Date of Maturity	December 1, 2033
Authorized Issue	\$ 3,000,000
Denomination of Bonds	\$ 5,000
Interest Rates	5.62% to 6.84%
Interest Dates	June 1 and December 1
Principal Maturity Date	December 1
Payable at	Amalgamated Bank

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year	Principal	Gross Interest	Net Interest *	Total
2013	\$	190,926	105,009	105,009
2014		190,926	105,009	105,009
2015		190,926	105,009	105,009
2016		190,926	105,009	105,009
2017		190,926	105,009	105,009
2018		190,926	105,009	105,009
2019		190,926	105,009	105,009
2020	95,000	190,926	105,009	200,009
2021	165,000	185,587	102,073	267,073
2022	170,000	176,314	96,973	266,973
2023	175,000	166,760	91,718	266,718
2024	180,000	156,925	86,309	266,309
2025	190,000	146,809	80,745	270,745
2026	195,000	136,131	74,872	269,872
2027	200,000	125,172	68,845	268,845
2028	210,000	111,492	61,321	271,321
2029	215,000	97,128	53,420	268,420
2030	225,000	82,422	45,332	270,332
2031	230,000	67,032	36,868	266,868
2032	240,000	51,300	28,215	268,215
2033	250,000	34,884	19,186	269,186
2034	260,000	17,784	9,781	269,781
	<u>\$ 3,000,000</u>	<u>3,083,148</u>	<u>1,695,730</u>	<u>4,695,730</u>

* Net interest represents a reduction due to Recovery Zone Economic Development Bonds subsidy at 45%.

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

Note Payable of 2009

April 30, 2012

Date of Issue	July 1, 2009
Date of Maturity	June 30, 2013
Authorized Issue	\$ 48,685
Interest Rates	4.625%
Interest Dates	Monthly
Principal Maturity Date	Monthly
Payable at	General Electric

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,574	350	10,924
2014	1,811	11	1,822
	<u>\$ 12,385</u>	<u>361</u>	<u>12,746</u>

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

Waterworks and Sewerage Alternate Revenue
Refunding Bonds of 2004

April 30, 2012

Date of Issue	April 1, 2004
Date of Maturity	May 1, 2014
Authorized Issue	\$ 1,860,000
Denomination of Bonds	\$ 5,000
Interest Rates	1.30% to 3.70%
Interest Dates	May 1 and November 1
Principal Maturity Date	May 1
Payable at	Cole Taylor Bank

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 220,000	9,140	229,140
2014	140,000	2,590	142,590
	<u>\$ 360,000</u>	<u>11,730</u>	<u>371,730</u>

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

IEPA Loan Payable of 2002

April 30, 2012

Date of Issue	April 30, 2002
Date of Maturity	December 30, 2021
Authorized Issue	\$ 1,170,000
Interest Rates	Various
Interest Dates	June 30 and December 30
Principal Maturity Date	June 30 and December 31
Payable at	Illinois Environmental Protection Agency

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 58,863	16,386	75,249
2014	60,364	14,885	75,249
2015	61,904	13,345	75,249
2016	63,484	11,765	75,249
2017	65,103	10,146	75,249
2018	66,764	8,485	75,249
2019	68,467	6,782	75,249
2020	70,214	5,035	75,249
2021	72,005	3,244	75,249
2022	73,841	1,407	75,248
	<u>\$ 661,009</u>	<u>91,480</u>	<u>752,489</u>

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

Tax Increment Financing Alternate
Revenue Bonds of 2002

April 30, 2012

Date of Issue	August 1, 2002
Date of Maturity	January 1, 2022
Authorized Issue	\$ 2,330,000
Interest Rates	3.70% to 5.10%
Interest Dates	January 1 and July 1
Principal Maturity Date	January 1
Payable at	Cole Taylor Bank

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year	Principal	Interest	Total
2013	\$ 85,000	104,626	189,626
2014	110,000	100,643	210,643
2015	135,000	95,458	230,458
2016	165,000	88,884	253,884
2017	195,000	80,776	275,776
2018	230,000	70,590	300,590
2019	265,000	58,215	323,215
2020	300,000	44,090	344,090
2021	340,000	27,920	367,920
2022	385,000	9,615	394,615
	<u>\$ 2,210,000</u>	<u>680,817</u>	<u>2,890,817</u>

CITY OF HIGHWOOD, ILLINOIS

Long-Term Debt Requirements

Tax Increment Financing Alternate Revenue
Capital Appreciation Bonds of 2002

April 30, 2012

Date of Issue	August 1, 2002
Date of Maturity	January 1, 2021
Authorized Issue	\$ 624,267
Interest Rates	4.00% to 5.40%
Interest Dates	January 1
Principal Maturity Date	January 1
Payable at	Cole Taylor Bank

FUTURE PRINCIPAL AND INTEREST REQUIREMENTS

Fiscal Year	Beginning Principal Balance	Accretion	Principal Payment	Ending Principal Balance
2013	\$ 733,637	36,774	75,000	695,411
2014	695,411	34,922	85,000	645,333
2015	645,333	32,373	95,000	582,706
2016	582,700	29,189	100,000	511,889
2017	511,895	25,560	105,000	432,455
2018	432,455	21,300	115,000	338,755
2019	338,755	16,267	120,000	235,022
2020	235,022	10,598	125,000	120,620
2021	120,620	4,380	125,000	
		<u>211,363</u>	<u>945,000</u>	