



THE CITY OF  
**ROCKFORD**  
ILLINOIS, USA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2009

CITY OF ROCKFORD, ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2009

Prepared by:

Finance Office  
Andres Sammul  
Finance Director



THE CITY OF

ROCKFORD

ILLINOIS, USA

# CITY OF ROCKFORD, ILLINOIS

## CONTENTS

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	<u>Pages</u>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	I - V
Officials and Officers	VI
Organization Chart	VII
Certificate of Achievement	VIII
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 16
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19 - 20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22 - 23
Reconciliation of the Statement of Revenues, Expenditures and changes in Fund Balance of Governmental Funds to the Statement of Activities	24
Statement of Net Assets - Proprietary Funds	25 - 26
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28 - 29
Statement of Fiduciary Net Assets - Fiduciary Funds	30
Statement of Changes in Plan Net Assets - Fiduciary Funds	31
Notes to the Financial Statements	32 - 72
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Funds:	
General Fund	A1
Public Library	A2
Community Development Fund	A3
Human Services Fund	A4
Analysis of Funding Progress	A5
Employer Contributions	A6
Notes to Required Supplementary Information	A7

# CITY OF ROCKFORD, ILLINOIS

## CONTENTS (Continued)

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	<u>Pages</u>
<b>FINANCIAL SECTION (Continued)</b>	
Other Supplementary Information	
Nonmajor Governmental Funds Combining Statements:	
Combining Balance Sheet	B1 - B6
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	B7 - B13
Statement of Rvenues, Expenditures and Changes in Fund Balance - Rockford Tuberculosis Care Center Fund	
Garbage and Refuse Fund	B14
Motor Fuel Tax Fund	
Redevelopment Fund	B15
Tourism Fund	
Special Projects Fund	B16
RKFD Metro Agency for Planning	B17
Tax Increment Financing Areas:	
East Side Fund	
West Side Fund	B18
Seventh Street Fund	
Southeast Fund	B19
South Rockford Fund	
Lincolnwood Estates Fund	B20
Springfield Corners Fund	
Rockford Global Trade Park Fund	B21
North Main Fund	
Lincolnwood II Fund	B22
River Oaks Fund	
Garrison Fund	B23
Hope Six Fund	
Kishwaukee/Harrison Fund	B24
Jackson School Fund	
Preston/Central Fund	B25
North Main & Auburn Fund	
East State & Alpine Fund	B26

# CITY OF ROCKFORD, ILLINOIS

## CONTENTS (Continued)

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	<u>Pages</u>
<b>FINANCIAL SECTION (Continued)</b>	
Other Supplementary Information (Continued)	
Nonmajor Governmental Funds Combining Statements: (Continued)	
Tax Increment Financing Areas: (Continued)	
West State & Central Fund	
West State & Kilburn Fund	B27
West Side II Fund	
Rockford Global Trade Park II Fund	B28
River North Fund	
North Main and Whitman Fund	B29
East River Fund	
Assisted Living Fund	B30
Midtown Fund	
Rockford Global Trade Park III Fund	B31
Broadway Fund	B32
Internal Service Funds:	
Combining Statement of Net Assets (Deficit)	C1 - C2
Combining Statement of Revenues, Expenses and Changes in Fund Net Assts	C3 - C4
Combining Statement of Cash Flows	C5 - C6
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets	D1
Combining Statement of Changes in Plan Net Assets	D2
Capital Assets:	
Schedule by Source	E1
Schedule by Function and Activity	E2
Schedule of Changes by Function and Activity	E3
<b>STATISTICAL SECTION</b>	
Financial Trends:	
Net Assets by Component	F1
Changes in Net Assets	F2 - F3
Fund Balances, Governmental Funds	F4 - F5

# CITY OF ROCKFORD, ILLINOIS

## CONTENTS (Continued)

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	<u>Pages</u>
<b>STATISTACAL SECTION (Continued)</b>	
Changes in Fund Balances, Governmental Funds	F6 - F7
Revenue Capacity:	
Assessed Value and Estimated Actual Value of Taxable Property	F8
Direct and Overlapping Property Tax Rate	F9 - F10
Principal Property Tax Payers	F11
Property Tax Levies and Collections	F12
Debt Capacity:	
Ratio of Outstanding Debt by Type	F13 - F14
Ratio of Net General Bonded Debt	F15
Direct and Overlapping Governmental Activities Debt	F16
Debt Capacity: (Continued)	
Legal Debt Margin Information	F17 - F18
Pledged-Revenue Coverage	F19
Demographic and Economic Information:	
Demographic and Economic Information Statistics	F20
Principal Employers	F21
Operating Information:	
Full-time Equivalent City Government Employees by Function/program	F22
Operating Indicators by Function/Program	F23
Capital Asset Statistics by Function/Program	F24

## **INTRODUCTORY SECTION**



Andres Sammul  
Director  
Finance Department

July 15, 2010

Citizens of the City of Rockford, Illinois,  
Honorable Mayor and  
Honorable Members of Council

The Comprehensive Annual Financial Report (CAFR) of the City of Rockford, Illinois for the fiscal year ended December 31, 2009, is hereby submitted. This report is prepared by the Finance Director's Office of the City of Rockford, Illinois. We believe the data, as presented, is accurate in all material respects; is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To provide a reasonable basis for making these representations, the City of Rockford management has established a comprehensive internal control framework that is designed to both protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Rockford's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Rockford's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The independent auditing firm of Lauterbach & Amen, LLP has audited the City of Rockford's financial statements. The purpose of the independent audit conducted by Lauterbach & Amen was to review and provide reasonable assurance that the City's financial statements for the fiscal year ending December 31, 2009 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the government-wide and fund financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rockford's financial statements for the fiscal year ended December 31, 2009, are fairly presented in conformity with GAAP.

In addition to the independent audit of the financial statements, a separate, federally mandated "Single Audit" was performed to meet the needs of specific grantor agencies. The standards governing Single Audit

engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls over compliance and compliance with legal requirements applicable to certain federal awards. These reports are available in the City of Rockford's separately issued Single Audit Report.

The **financial section** begins with the independent auditors' report. The auditors' report discloses the opinion of the independent auditors with regard to the presentation of the financial statements. This section also includes Management's Discussion and Analysis, the Basic Financial Statements and Notes that provide information on the City's financial position and operating results, the Combining Statement of non-major funds and other schedules that provide detailed information relative to the Basic Financial Statements.

The **statistical section** includes selected financial and demographic information, generally presented on a multi-year basis. This section is designed to provide the user with a broader and more complete understanding of the City and its financial affairs than is possible from only the financial statements and supporting schedules presented in the financial section.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Rockford's MD&A can be found in the Financial Section, immediately following the report of the independent auditors.

### **Profile of the City**

The City of Rockford is a non-home rule city, incorporated in 1839 as a town and became a city in 1852. Located in North Central Illinois approximately 17 miles south of the Wisconsin border and 80 miles northwest of downtown Chicago, Rockford is the third largest city in Illinois with approximately 150,115 residents encompassing approximately 61.86 square miles and serves as the county seat for Winnebago County. The City is empowered to levy property taxes (subject to the Property Tax Extension Limitation Law provisions, which limits the annual growth in property tax extensions for the City to the lesser of 5% or the percentage increase in the Consumer Price Index during the preceding calendar year plus full credit for new construction and annexations) on both real and personal property located within its boundaries and has the authority to extend its corporate limits through annexation, when deemed appropriate and as approved by City Council.

The City has operated under the Mayor-Alderman form of government since April 1852. Policy-making and legislative authority are vested in the City Council consisting of the mayor and fourteen aldermen. The City Council is responsible for enacting ordinances, resolutions and regulations governing the City, adopting the budget, as well as appointing the members of various statutory and ordinance boards, and for approving the appointments by the Mayor for the City Administrator and the heads of the various departments. The Mayor and Alderman (one from each ward) are elected and serve four year terms.

The City of Rockford provides a full range of services, including police and fire protection, emergency communication center, public works services, water distribution services, public library services and general administrative services. The City also operates the Rockford Mass Transit District and the Rockford Metropolitan Exposition, Auditorium and Office Building Authority, all of which are accounted for in the financial statements as component units.

The Rockford School District 205 and the Greater Rockford Airport do not meet the criteria for inclusion in the financial reporting entity and, accordingly, are not presented in this report.

The annual budget serves as the foundation for the City of Rockford's financial planning and control. During the budget preparation process, each department and agency of the reporting entity provides detailed estimates of revenue and expenditures for evaluation by the City Finance Director. The Finance Director also reviews estimates of all pending capital projects and those recommended for approval in the next budget year and within the succeeding five years. The Finance Director, in conjunction with the department heads, may revise these estimates prior to submitting the budget to the City Council for approval. The budget is prepared by fund, function (e.g. public safety) and department (e.g. police). The budget must be approved by City Council prior to the end of the first quarter of the budget year. Neither transfers within a department nor transfers between departments are made once the budget is approved. Budget-to-actual comparisons for the General and Special Revenue Funds are provided in this report.

### **Factors Affecting Financial Condition**

**Local economy.** The City of Rockford continues to expand and diversify its industrial base and employment opportunities. Rockford's economy is diversified with manufacturing and medical as its primary base, while call center/office operations, distribution centers and educational institutions become more important to the economy. The 2009 average unemployment rate for the metropolitan area was 15.7% as compared to the state average of 11.1% and the national average of 10.0%.

Rockford is home to the operations of several large companies such as: Rockford Health System, Swedish American Health System, Hamilton Sundstrand Company, United Parcel Service, OSF St. Anthony's Medical Center, Chrysler, NCO Group, Woodward Governor, Invensys, Quebecor Printing, Lowe's Distribution Center, Cadbury/Adams Division, and Anderson Packaging. Rockford is proud of its quality of life, skilled workforce and low cost of living. The City and private interests are aggressively pursuing the expansion and diversification of the work force. The City has created tax increment districts, an enterprise zone, a small business loan program and administers the Community Development Block Grant Program.

One of Rockford's assets is the quality of higher education in and around the community. Rockford is home to: Rock Valley College – a two year community college with a state of the art Technology Center that is used by area manufacturers and businesses; Rockford College – a fully accredited independent institution that awards bachelor degrees in thirty one majors in arts and science as well as graduate programs in business and education; Northern Illinois University Rockford Branch – offers courses in business, education, engineering and engineering technology, health and human sciences, and liberal arts and sciences, as well as a cooperative effort with Rock Valley College to award bachelor degrees in Nursing, General Studies, Computer Science, Industrial Technology, Community Health and Elementary Education; University of Illinois College of Medicine at Rockford – provides education to second, third and fourth year medical students in the fields of primary care, family practice, internal medicine, pediatrics and other medical specialties; Rasmussen College Rockford – a two year community college that works in harmony with Rockford's business community and employer demands.

**Long-term financial planning.** The City of Rockford utilizes a five-year capital improvement program to prioritize public projects which will be scheduled over a number of years as financial resources are available. The City utilizes a variety of methods to fund these projects such as: public-private cooperative efforts, special purpose taxes, cost sharing with other governmental agencies and issuing general obligation bonds. Capital Improvement projects are selected if they: 1) eliminate conditions detrimental to health, safety and general welfare of the community; 2) improve the City's existing infrastructure; 3) encourage private capital investment to improve job opportunities and the City's tax base; and 4) benefit the greatest number of City residents or contribute to an equitable distribution of service throughout the City.

The yearly capital improvement program generally consists of projects designed to repair and improve both arterial and neighborhood streets, bridges, pedestrian safety, and water service expansion and replacement.

The City provides leadership and encourages the private sector in the development of the Riverfront, Downtown and other areas of the City.

**Cash management policies and practices.** The primary objective of the City investment policy is to provide for the safety of principal, liquidity and a reasonable rate of return. The City complies with the Illinois State Statute requirements in purchasing securities for investment of the City's idle cash. The investment maturities range from daily, for money markets, to 15 years, for US Treasury and Agency bonds, with a 1.71 year average maturity for the portfolio. The average yield as of year end was 1.35% and will fluctuate on a daily basis. The City currently looks at a shorter time horizon when investing the City's funds.

**Risk management.** The City of Rockford is self-insured for certain general liability, workmen's compensation, unemployment, property damage and bodily (automobile accidents) claims. Liabilities are recorded when it is probable that a liability has been incurred as of the balance sheet date and the amount of the liability can be reasonably estimated. Both the current and non-current portions of any liability are reported in the Internal Service Funds. The City will continue to evaluate loss potential, risk retention and insurance coverage to achieve optimum levels of risk management.

The City's health plan lifetime maximum is \$1,500,000. Excess coverage was purchased to the maximum with a \$225,000 retention. Risk control techniques include pre-certification and utilization review process, pre-employment drug testing, an employee assistance program, voluntary second opinion for surgery program and alcohol and substance abuse training. These initiatives were implemented to enhance employee life while controlling total City risk.

**Employee Retirement Plans.** The State of Illinois statutes provide for three pension funds for municipal employees: the Illinois Municipal Retirement Fund, the Police Pension Fund, and the Firefighter's Pension Fund. Each plan has retirement, disability and death benefits for eligible employees. The Rockford Mass Transit District provides its employees a single-employer retirement system.

The Police and Firefighter's Pension Funds are each administered by separate local boards. The Police Pension Board and the Firefighter's Pension Board are composed of five members each. The Mayor appoints two members to each board; two members are elected from the regular active members of the police force and firefighters, and one member is elected to each board by and from the beneficiaries of the fund. Illinois State Statutes determine the amount of contribution that each police officer and firefighter makes to their respective fund. The City each year engages an independent actuary to calculate the amount of the annual contribution that the City of Rockford must make to each pension fund to ensure that the plan will be able to meet its obligations on a timely basis. The City of Rockford fully funds each year's annual required contribution to the pension plan as determined by the actuary.

The City of Rockford contributes to the Illinois Municipal Retirement Fund ("IMRF"), an agent for multiple-employer, public employee retirement systems, acting as a common investment and administrative agent for local governments and school districts in Illinois. The City's contribution is determined each year by IMRF and for 2009 the amount was 9.35% of covered payroll. Additional information on the City of Rockford's pension arrangements and post-employment benefits can be found on pages 62-69 in the notes to the financial statements.

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employees for Post Employment Benefit Plans Other than Pensions. Since the City does not contribute towards the cost of the retiree's health insurance, the City is reporting only the implicit liability that is created when the retiree (by State Statute) is charged the group rate for the insurance as opposed to the true rate that would have been charged based on the risk.

## **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Rockford, Illinois, for its comprehensive annual financial report for the fiscal year ended December 31, 2008. This was the thirtieth consecutive year the City of Rockford has received this award.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principals and applicable legal requirements.

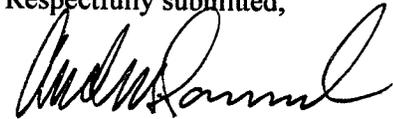
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City of Rockford received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning January 1, 2009. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The preparation of this report has been accomplished through the diligent efforts of the staff of the Finance Department. I should like to express my appreciation to members of this department who assisted and contributed to its preparation.

I also thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City.

Respectfully submitted,



Andres Sammul  
Finance Director

CITY OF ROCKFORD, ILLINOIS  
OFFICIALS AND OFFICERS  
Year Ended December 31, 2009

MAYOR

Lawrence J. Morrissey

CITY COUNCIL MEMBERS

Franklin C. Beach  
John C. Beck  
Venita Hervey  
William Robertson  
Patrick Curran  
Joe Sosnowski  
Ann Thompson-Kelly

Karen Elyea  
Leonard J. Jacobson  
Carl Wasco  
Nancy L. Johnson  
Douglas Mark  
Linda McNeely  
Bill Timm

CITY ADMINISTRATOR

James Ryan

Reid Montgomery  
COMMUNITY DEVELOPMENT DIRECTOR

Andres Sammul  
FINANCE DIRECTOR

Derek Bergsten  
FIRE CHIEF

George Davis  
HUMAN SERVICES DIRECTOR

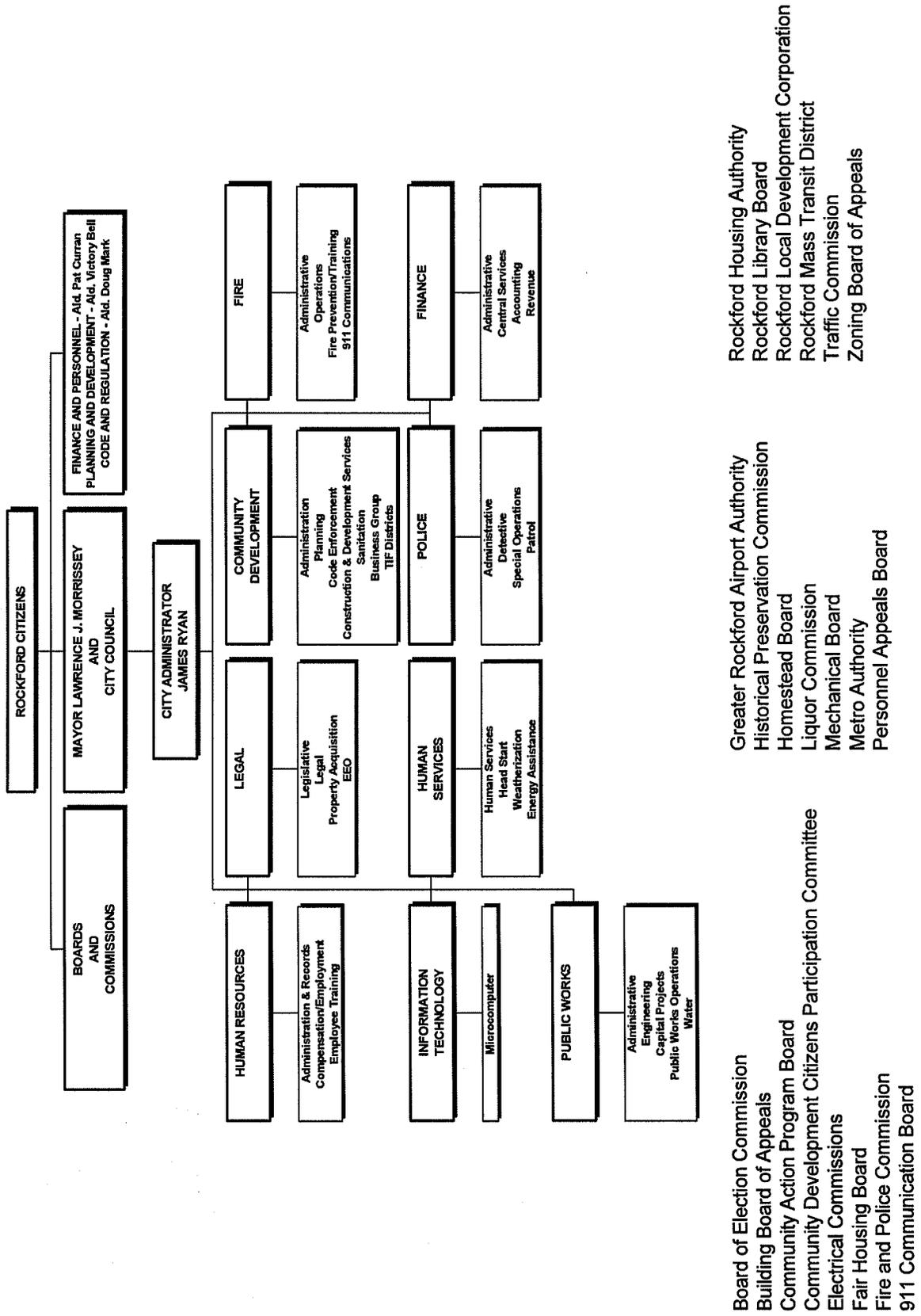
Patrick Hayes  
LEGAL DIRECTOR

Jessica L. Jones  
PERSONNEL DIRECTOR

Chet Epperson  
POLICE CHIEF

Timothy Hanson  
PUBLIC WORKS DIRECTOR

# CITY OF ROCKFORD, ILLINOIS ORGANIZATION CHART



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rockford  
Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**FINANCIAL SECTION**

**INDEPENDENT AUDITORS' REPORT**

July 15, 2010

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockford, Illinois as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the basic financial statements of each of the City of Rockford, Illinois' nonmajor governmental funds, and internal service funds presented in the accompanying combining and individual fund financial statements and schedules as of and for the year ended December 31, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the City of Rockford, Illinois management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the Rockford Mass Transit District or the Rockford Metropolitan Exposition, Auditorium and Office Building Authority discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us; and our opinion, insofar as it relates to the amounting included for the Rockford Mass Transit District or the Rockford Metropolitan Exposition, Auditorium and Office Building Authority, is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Rockford Mass Transit District and the Rockford Metropolitan Exposition, Auditorium and Office Building Authority discretely presented component units, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockford, Illinois as of December 31, 2009 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole and on the combining and individual fund financial statements. The accompanying financial information listed as schedules in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Rockford, Illinois. Such information has been subjected to the auditing procedures applied in the audit of the basic, combining, and individual fund financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements and each of the combining and individual fund financial statements taken as a whole.

The Management's Discussion and Analysis and the other required supplementary information listed in the accompanying table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

The introductory and statistical information listed in the table of contents was not audited by us and, accordingly, we do not express an opinion thereon.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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This section of the City of Rockford ("City") annual financial report presents our discussion and analysis of the City's financial performance for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Rockford exceeded its liabilities at year-end December 31, 2009 by \$612,660,237 (net assets). Of this amount, the City's unrestricted net assets which may be used to meet the City's ongoing obligations to citizens and creditors was a negative (\$25,350,320). Governmental activities accounted for \$476,561,215 and business-type activities accounted for \$136,099,022. The City's total net assets decreased by \$66,636 of which (\$3,215,806) was related to governmental activities and \$3,149,170 to business-type activities.
- During the year, the City's primary government-wide expenses were \$214,376,952, which was more than the \$214,310,316 generated in primary government-wide taxes and other revenues for governmental functions.
- In the City's business-type activities, program revenues decreased 4 percent to \$24,214,932, while expenses increased 3 percent to \$21,068,176.
- As of the close of the current fiscal year, the City of Rockford's governmental funds reported combined ending fund balances of \$54,186,838. Approximately 68 percent of this total amount, \$36,879,441, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$21,810,257, or 20 percent of total General Fund expenditures.
- During the current fiscal year the City's total long-term obligations increased by 1 percent or \$2,380,676, to \$201,771,748. The key factor in this increase was the issuance of \$16.5 million in IEPA loans and a \$11 million payment to reduce notes payable for water system upgrades.
- The General Fund reported a decrease in fund balance of \$2,346,275 during fiscal year 2009 to \$22,006,223.
- The City's general fund actual revenues missed the final amount budgeted by \$2,727,281 and the actual expenditures were under the budgeted amounts by \$518,586.
- The City's Governmental Funds capital outlays were \$22,686,719 in 2009, an increase from last year of \$1,518,650.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's annual report consists of three components: 1) the basic government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and nonrequired supplementary information in addition to the basic financial statements.

#### Government-wide financial statements

The governmental-wide financial statements report information about the City as a whole, and are designed to provide readers with a broad overview of the City's finances, using accounting methods in a manner similar to a private-sector business.

The government-wide financial statements of the City are divided into three categories:

**Governmental activities (Primary government)** – The governmental activities of the City include general government (general administration), public safety (police, fire, building inspection, street lighting), streets, alleys and bridges (public works administration, engineering, street, traffic), sanitation (public works – sewer, garbage and refuse) community development (planning & zoning), culture and recreation (public library) and public health and welfare (human services). Property taxes, State shared revenues, and operating grants from Federal and State agencies finance most of these activities.

**Business-type activities (Primary government)** – The City charges fees to customers to help cover the costs of certain services it provides. The water utility and parking systems are reported here.

**Component units** – The City includes two other entities in its report: the Rockford Mass Transit District and the Rockford Metropolitan Exposition, Auditorium and Office Building Authority. Although legally separated, these component units are important because the City is financially accountable for them.

The two government-wide statements are as follows:

**Statement of net assets** – The statement of net assets presents financial information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as one indicator of whether the financial position of the City of Rockford is improving or deteriorating.

**Statement of activities** – The statement of activities presents financial information on how the City's net assets changed during the current 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 flow. 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 and earned but unused vacation leave).

Both of these statements assist assessing the overall condition of the City, but one also needs to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets (roads and bridge, buildings, and water).

The government-wide financial statements can be found on pages 17- 18 of this report.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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### **Fund financial statements**

The fund financial statements provide more detailed information about the City's most significant funds, but not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required to be established by State law and bond covenants. The City also establishes many other funds to help it control and manage resources for particular purposes (e.g., like capital improvement projects, or to show that it is properly using certain taxes (Library), or grants (Community Development and Human Services)).

The City has three types of funds:

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Consequently, the governmental fund statements provide a short-term view and help determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation is provided that explains the relationship or differences between the governmental funds and governmental activities.

The City maintains 45 individual governmental funds of which six are considered major funds. Information is presented separately for the City's major funds in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The General Fund, Public Library Fund, Community Development Fund, Human Services Fund, Debt Service Fund, and Capital Projects Fund are considered the City's major funds. Financial data from the other 39 governmental funds are combined into a single, aggregated presentation. Individual fund financial data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and its three major special revenue funds. A budgetary comparison statement has been provided for the General Fund, Public Library Fund, Community Development Fund, and Human Services Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 19 - 24.

**Proprietary funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses enterprise funds to account for its Water Utility Fund and its Parking System Fund, both of which are considered to be major funds of the City. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, building maintenance, management information system, health system, 911 communications, and services for the City's other programs and services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 25 - 29 of this report.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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**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 governmental-wide financial statements because those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has two fiduciary funds, the police pension and firefighter's pension funds. The City is the trustee for these pensions and it is also responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The fiduciary fund financial statements can be found on pages 30 - 31 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 32 - 72 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 Rockford's progress in funding its obligation to provide benefits to its employees.

Required supplementary information can be found on pages A1 –A7 of this report.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

### Government-wide

#### FINANCIAL ANALYSIS

**Net assets** – As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$612,660,237 at the close of the fiscal year ended December 31, 2009.

By far the largest portion of the City's net assets (over 100 percent) reflects its investment in capital assets (land, buildings, equipment, other improvements and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses this capital to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### City of Rockford Net Assets

	Governmental activities 2009	Governmental activities 2008	Business-type activities 2009	Business-type activities 2008	Total 2009	Total 2008
Current and other assets	\$ 135,864,704	\$ 147,783,235	\$ 33,703,616	\$ 58,926,746	\$ 169,568,320	\$ 206,709,981
Capital assets	550,164,842	550,744,778	181,151,339	151,672,646	731,316,181	702,417,424
Total assets	686,029,546	698,528,013	214,854,955	210,599,392	900,884,501	909,127,405
Long-term liabilities	105,421,459	106,310,512	68,630,983	55,705,814	174,052,442	162,016,326
Current liabilities	104,046,872	112,440,480	10,124,950	21,943,726	114,171,822	134,384,206
Total liabilities	209,468,331	218,750,992	78,755,933	77,649,540	288,224,264	296,400,532
Net assets:						
Invested in capital assets, net of related debt	477,852,551	471,473,879	131,269,066	127,460,090	609,121,617	598,933,969
Restricted	23,227,534	27,632,044	5,661,406	4,836,269	28,888,940	32,468,313
Unrestricted	(24,518,870)	(19,328,902)	(831,450)	653,493	(25,350,320)	(18,675,409)
Total net assets	\$ 476,561,215	\$ 479,777,021	\$ 136,099,022	\$ 132,949,852	\$ 612,660,237	\$ 612,726,873

The City's combined net assets decreased by \$66,636 (from \$612.7 to \$612.6 million) during 2009. This change is the result of a \$3.2 million decrease and a \$3.1 million increase in the net assets of the governmental activities and business-type activities, respectively. The decline in net assets, unrestricted net assets, and current assets of the governmental activities was due primarily to the City's use of cash on hand to pay certain operating costs.

The \$3,149,170, increase to net assets of the business-type activities is attributable to operating activities of the water fund. Unrestricted net assets decreased \$1,484,943, due primarily to the use of cash to pay down \$11 million of the \$25 million installment purchase agreement used to fund the City's \$75 million water improvement program. The decrease in current assets is directly related to the increase in capital assets.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

**Governmental activities** – Net assets for the City's governmental activities decreased \$3,215,806. This decrease may be attributed to a significant shortfall in revenues such as retail sales tax, income tax, and personal property replacement tax. In addition about two thirds of total expense is attributable to personnel and infrastructure improvements. This reflects the fact that the City is a labor intensive organization with considerable investment in infrastructure which must be maintained at a certain level to minimize costs over the long run.

### Changes in Net Assets

Revenues	Governmental	Governmental	Business-type	Business-type	Total	Total
	activities	activities	activities	activities		
	2009	2008	2009	2008	2009	2008
<b>Program revenues:</b>						
Charges for services	\$ 27,167,967	\$ 25,147,724	\$ 23,465,165	\$ 24,326,649	\$ 50,633,132	\$ 49,474,373
Operating grants and contributions	29,288,219	21,562,828	-	-	29,288,219	21,562,828
Capital grants and contributions	2,000,666	763,307	749,767	936,237	2,750,433	1,699,544
<b>General revenues:</b>						
<b>Taxes:</b>						
Property taxes	58,379,104	55,712,310	-	-	58,379,104	55,712,310
Sales tax	35,756,775	39,497,031	-	-	35,756,775	39,497,031
Franchise taxes	1,624,690	1,624,014	-	-	1,624,690	1,624,014
Income tax	12,201,422	14,193,822	-	-	12,201,422	14,193,822
Replacement tax	7,212,783	8,181,027	-	-	7,212,783	8,181,027
Other taxes	13,820,072	14,542,761	-	-	13,820,072	14,542,761
Interest earnings	226,143	3,086,564	2,414	1,687,136	228,557	4,773,700
Other	2,415,129	2,831,758	-	-	2,415,129	2,831,758
<b>Total revenues</b>	<b>190,092,970</b>	<b>187,143,146</b>	<b>24,217,346</b>	<b>26,950,022</b>	<b>214,310,316</b>	<b>214,093,168</b>
<b>Expenses</b>						
General government	14,561,840	15,005,594	-	-	14,561,840	15,005,594
Public safety	84,813,690	87,630,182	-	-	84,813,690	87,630,182
Streets, alleys and bridges	34,557,692	43,499,831	-	-	34,557,692	43,499,831
Community development	17,901,167	13,876,323	-	-	17,901,167	13,876,323
Sanitation	7,544,392	7,560,231	-	-	7,544,392	7,560,231
Culture and recreation	9,490,086	17,990,843	-	-	9,490,086	17,990,843
Public health and welfare	19,723,022	15,708,487	-	-	19,723,022	15,708,487
Interest and fiscal charges	4,716,887	5,689,763	-	-	4,716,887	5,689,763
Water	-	-	18,865,983	18,003,425	18,865,983	18,003,425
Parking	-	-	2,202,193	2,426,974	2,202,193	2,426,974
<b>Total expenses</b>	<b>193,308,776</b>	<b>206,961,254</b>	<b>21,068,176</b>	<b>20,430,399</b>	<b>214,376,952</b>	<b>227,391,653</b>
Increase in net assets before transfers	(3,215,806)	(19,818,108)	3,149,170	6,519,623	(66,636)	(13,298,485)
Transfers	-	-	-	-	-	-
Increase in net assets	(3,215,806)	(19,818,108)	3,149,170	6,519,623	(66,636)	(13,298,485)
Net assets - beginning	479,777,021	499,595,129	132,949,852	126,430,229	612,726,873	626,025,358
Net assets - ending	\$ 476,561,215	\$ 479,777,021	\$ 136,099,022	\$ 132,949,852	\$ 612,660,237	\$ 612,726,873

Total governmental activities' revenue for the current year was \$190,092,970 compared to \$187,143,146 in 2008, an increase of 1.5%. The leading factors are as follows:

- The City's largest single revenue source, property taxes amounted to \$58.3 million. Property taxes increased by approximately \$2.6 million (4.5 percent) during the current year compared to 3.7 percent and 6.2 percent for 2008 and 2007, respectively due to an increase in equalized assessed value and new growth. The City's property tax rate remained nearly unchanged at about \$2.53 per \$100 of EAV.
- Shared revenue from the State decreased approximately \$7.4 million (9.7 percent) from 2008. Sales tax revenue accounted for half of the shortfall (\$3.7 million). This slippage reflects the local impact of the current national recession.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

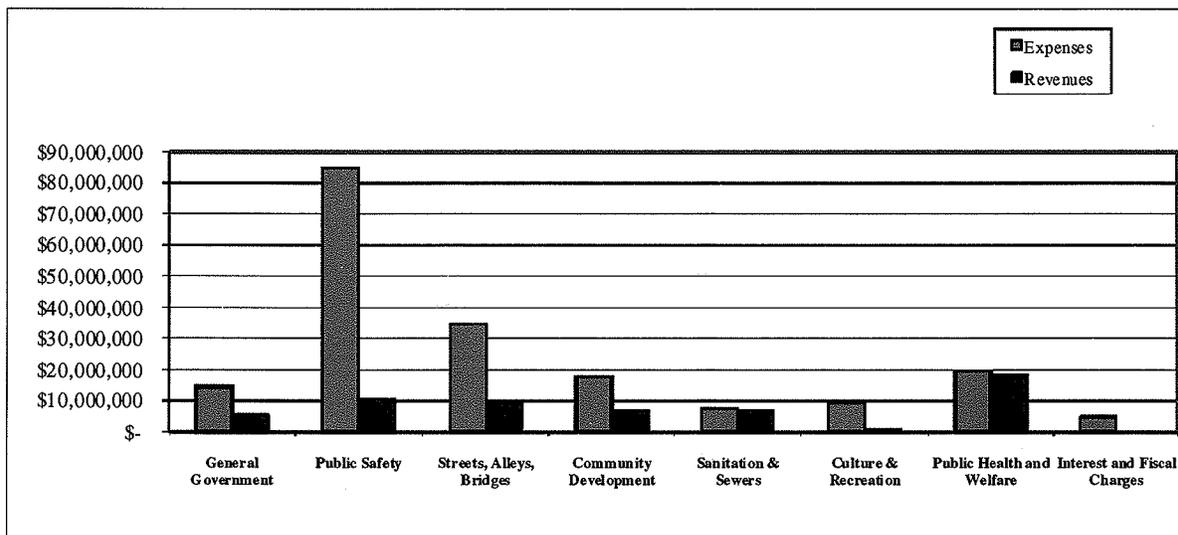
Income taxes and replacement taxes are also shared with the state but on a per-capita basis. Between 2008 and 2009, the City's income taxes decreased by \$2 million and replacement taxes decreased by about \$1 million. This represents the second consecutive year of sharp declines, recovery will take longer as the full effect of a downturn or an improving state-wide economy is not felt immediately.

- Operating grants, capital grants, and capital contributions increased almost \$9 million (40 percent), mostly as a result of federal grants administered by the City's community development and human services departments. While these grants increase revenues they also increase expenditures, generally on a one to one basis at best, resulting in little change to net assets.
- Charges for services increased 7.9 percent due to significant increases to ambulance rates and charges for services provided to other local governments and agencies.

Total governmental activities' expense for the current year was \$193,308,776 compared to \$206,961,254 in 2008, a decrease of 6.6%. This decrease was primarily the result of two intergovernmental agreements. The first agreement with the Rockford Metropolitan Exposition, Auditorium and Office Building Authority, was to provide improvements to the facility known as the Rockford Metro Centre and acquire a hockey franchise. The City issued \$23 million of general obligation bonds in 2007 and spent \$12.6 million of those proceeds in 2007 and \$9.5 million in 2008. The second agreement was to guarantee a \$10 million line of credit for Rockford Local Development Corporation (RLDC) to purchase approximately 80 homes and two commercial properties in the Keith Creek floodplain. At the close of the previous fiscal year there were outstanding borrowings of \$8.8 million under the agreement. These two agreements account for over \$18 million in additional expenses for the 2008 fiscal year, without this decrease 2009 expense would have increased by about \$4.5 million, attributable to scheduled salary increases for collective bargaining agreements.

The graph below shows a comparison between the expenditures by governmental activity type and the revenues generated that are specific to those activities.

### Expense and Program Revenue – Governmental Activities

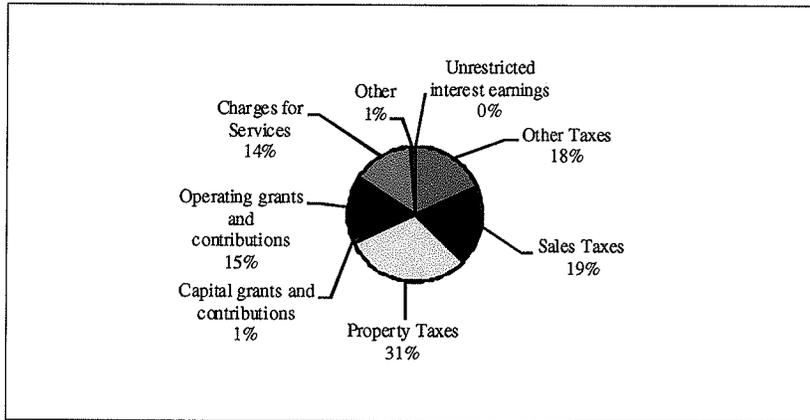


# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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### Revenues by Source - Government Activities



### Revenues by Source - Government Activities

The cost of all governmental activities this year was \$193,308,776. However, the amount that taxpayers paid for these activities through City and State taxes was only \$128,994,846. Some of the cost was paid by:

- Those who directly benefited from the programs (\$27,167,967), or
- Other governments and organizations that subsidized certain programs with grants (\$31,288,885).

**Business-type Activities** – Business-type activities net assets increased by \$3,149,170 in 2009, compared to an increase of \$6,519,623 in 2008. Revenues from business type activities decreased more than 10 percent to \$24,217,346 and expenses increased 3.1 percent to \$21,068,176. Key elements contributing to these results included:

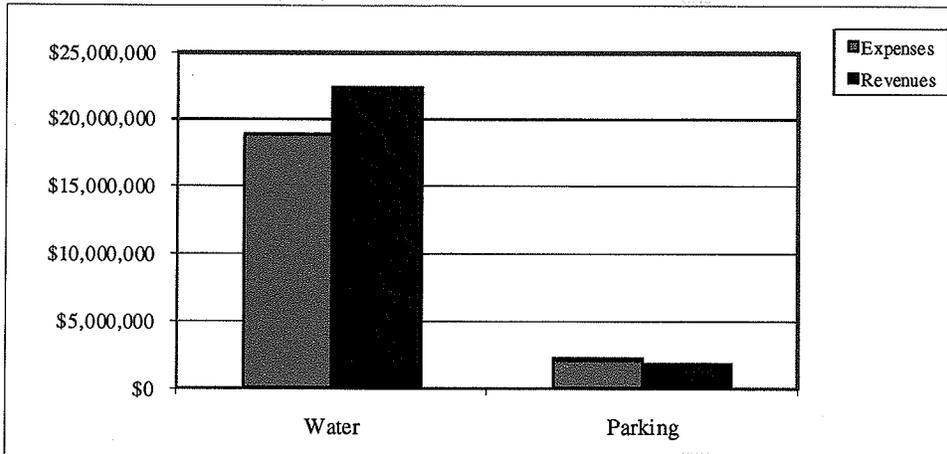
- Charges for services for business-type activities decreased by 3.5 percent. The Water Utility accounts for a significant portion of this decrease. A reduction of 10 percent in gallons of water supplied coupled with a 3 percent rate increase on January 1<sup>st</sup>, provided \$1.1 less revenue. Higher than average rainfall and conservation efforts impacted water usage.
- The Water Utility received capital grants and contributions from developers of \$749,767 in 2009 compared to \$936,237 in 2008.

City of Rockford, Illinois

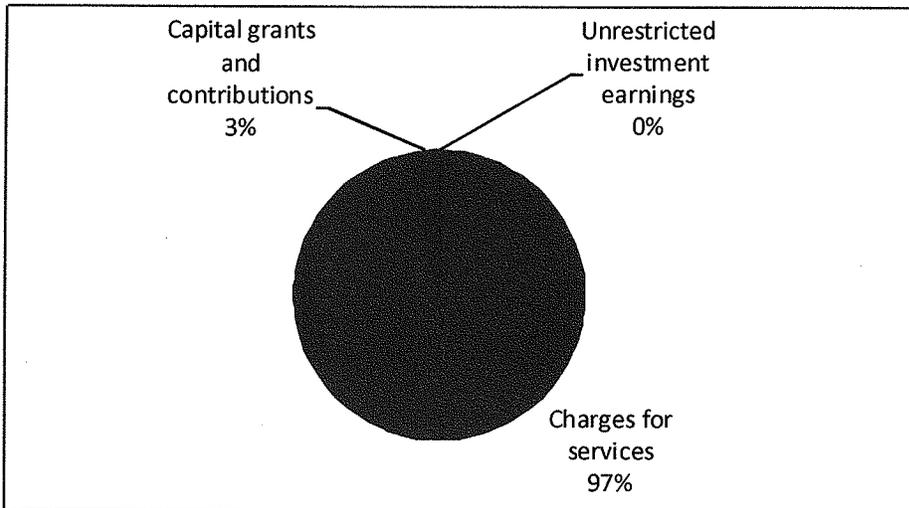
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2009

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**Expenses and Program Revenues - Business-type Activities**  
(000) In Thousands



**Revenues by Source - Business-type Activities**



# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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### FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

As noted earlier, the City 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. Such information is useful in assessing the City's financing requirements. In particular, unreserved 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 the City completed the year 2009, its governmental funds reported a combined fund balance of \$54,186,838, a decrease of \$4,035,292 (7 percent) in comparison with last year. Unreserved fund balance was \$36,879,441, and is available for spending at the government's discretion. The remainder \$17,307,397 is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate purchase orders of the prior period (\$8,377,883), 2) pay debt service (\$7,989,282), 3) for long-term notes receivable (\$141,195), 4) for intergovernmental agreements, (\$765,000), and 5) for endowments which are restricted to principal (\$34,037).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund is \$21,810,257, while total fund balance reached \$22,006,223. As a measure of the General Fund's liability, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 19 percent of total General Fund expenditures, while total balance represents 20 percent of that same amount.

The fund balance of the City's General Fund decreased \$2,346,275 during the current fiscal year compared to a decrease of \$8,853,984 for 2008 and a decrease of \$133,809 for 2007. The decrease is primarily the result of declining elastic revenues. Elastic revenues are those revenues that tend to change with economic conditions such as, sales tax, use tax, state income tax, and personal property replacement tax. As a result of a slow down in the state and local economy, these revenues finished \$4,049,287 below the budgetary estimate.

The Public Library fund balance at year-end was \$4,027,957 of which \$19,037 is reserved for endowments. The net increase in fund balance during the current fiscal year in the Library Fund was \$632,984. This increase is primarily the result of a positive variance between budgeted and actual expenditures.

The Community Development fund balance at year-end was \$1,545,431 of which \$765,000 is reserved for intergovernmental agreements and \$47,113 reserved for encumbrances. There was a decrease in fund balance of \$171,281. This decrease was the result of an increase in non-reimbursable operating expenditures.

The Human Services fund balance at year-end was \$191,115 of which \$141,095 is reserved for long-term notes receivable. The net decrease in fund balance during the current fiscal year in the Human Service Fund was \$279,878. This decrease was due to an increase in non-reimbursable operating expenditures.

The Debt Service Fund total fund balance at year-end was \$7,989,282, all of which is reserved for the payment of debt service. The net decrease in the fund balance during the current year was \$678,129. This decrease corresponds with the decrease of transfers into the Debt Service Fund during the current fiscal year needed for principal and interest payments during following fiscal year.

Capital Projects Fund total fund balance at year-end was \$11,808,159 of which \$8,115,303 is reserved for encumbrances. The net decrease in fund balance during the current fiscal year to the Capital Project Fund was \$5,088,194. This decrease was the result of spending \$4.5 million in sales tax revenues earned in previous years for projects during the current year.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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

### Budgetary Highlights

The City Council passed a supplemental budget appropriation, however, no changes were made to the General Fund. The City is legally authorized by State statutes to amend the budget after June 30. Budgetary results for the General Fund departments are as follows:

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues	107,647,218	107,647,218	104,919,937	(2,727,281)
Expenditures	110,148,816	110,148,816	109,630,230	518,586
Excess of revenues over expenditures	(2,501,598)	(2,501,598)	(4,710,293)	(2,208,695)
Other financing sources and uses				
Transfers from other funds	4,834,550	4,834,550	4,748,900	(85,650)
Transfers to other funds	(2,384,882)	(2,384,882)	(2,384,882)	-
Net change in fund balance	(51,930)	(51,930)	(2,346,275)	(2,294,345)

During the year the City spent 99.5 percent of the final amount appropriated in the General Fund. Actual General Fund revenues were less than budgetary estimates by 2.5 percent. As discussed previously revenues missed the mark due to the national economic downturn. In response to the diminished revenues the City; implemented a wage freeze and furlough days equal to a 3.33% pay reduction for all exempt employees; closely scrutinized requests to fill vacant staff positions; and reduced total staffing levels by about 6% through lay-offs, attrition, and an early retirement program.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities as of December 31, 2009 amounts to \$731,316,181 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, roads and bridges, and water and sewer lines. The City's investment in capital assets net of accumulated depreciation was relatively unchanged for governmental activities during the current fiscal year (a 0.1 percent decrease). However, net capital assets increased 16% for business-type activities. This increase is the result of a \$75 million capital improvement program to improve water quality and modernize Rockford's water utility.

Major capital asset additions during the current fiscal year included the following:

- Capital additions for the general fund were suspended due to the budget shortfall. However, a few minor purchases were made; the police department purchased two new squad cars and two prisoner transport vans; and the fire department purchased two used pumper trucks and two new rescue boats. Total general fund additions were less than \$200,000.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2009

- Completion of a new eastside branch library with renovations totaling approximately \$0.5 million.
- A variety of street construction projects in both new residential and business developments, along with widening and expansion projects for existing streets and bridges were completed during the year. Capital street and bridge projects totaled \$21.6 million during the current year. Significant projects in 2009 included – Kishwaukee Street Improvements (\$2.2 million), Downtown Streetscape (\$1.9 million), City-wide Residential Resurfacing program (\$1.2 million), Rockton Avenue (\$877,000), Perry Creek Interchange (\$724,000), Auburn Street Resurfacing (\$705,000) and the Ridge and Whitman Intersection (\$646,000).
- Various system additions and improvements were completed in the Water Utility Fund at a cost of \$33.6 million; construction in progress as of the end of the current year had reached \$31 million.

### Primary Government Capital Assets (net of depreciation)

	Governmental	Governmental	Business-type	Business-type	Total	Total
	activities	activities	activities	activities		
	2009	2008	2009	2008	2009	2008
Land	\$ 6,899,241	\$ 6,875,924	\$ 6,153,801	\$ 6,087,008	\$ 13,053,042	\$ 12,962,932
Land improvements	274,877	281,102	218,386	99,715	493,263	380,817
Buildings and improvements	29,442,225	30,468,658	18,940,609	14,902,756	48,382,834	45,371,414
Improvements other than building	-	-	122,549,682	104,298,760	122,549,682	104,298,760
Equipment	8,134,212	9,323,836	1,886,514	1,202,552	10,020,726	10,526,388
Infrastructure	505,414,287	503,795,258	-	-	505,414,287	503,795,258
Construction in progress	-	-	31,402,347	25,081,855	31,402,347	25,081,855
<b>Total</b>	<b>\$ 550,164,842</b>	<b>\$ 550,744,778</b>	<b>\$ 181,151,339</b>	<b>\$ 151,672,646</b>	<b>\$ 731,316,181</b>	<b>\$ 702,417,424</b>

Additional information on the City of Rockford's capital assets can be found in Note III, C on pages 47 - 48 of this report.

**Long-term Debt** – At the end of the current fiscal year, the City of Rockford had total bonded debt outstanding of \$146,680,000. This debt is backed by the full faith and credit of the City. Total debt decreased by \$1,990,000 during the current fiscal year. Key factors in this decrease were; \$9 million series 2008A issued for the second phase of \$75 million water system rehabilitation program, \$1.3 million series 2008B issued for community development projects, \$1.85 series 2008C issued for the purchase of a parking garage, and current years debt service requirements.

### Primary Government Outstanding Debt General Obligation and Revenue Bonds

	Governmental	Governmental	Business-type	Business-type	Total	Total
	activities	activities	activities	activities		
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 32,235,000	\$ 38,290,000	\$ -	\$ -	\$ 32,235,000	\$ 38,290,000
General obligation revenue bonds	72,500,000	66,465,000	39,040,000	41,925,000	\$111,540,000	\$108,390,000
<b>Total bonded debt</b>	<b>\$104,735,000</b>	<b>\$ 104,755,000</b>	<b>\$ 39,040,000</b>	<b>\$ 41,925,000</b>	<b>\$143,775,000</b>	<b>\$ 146,680,000</b>

The City of Rockford's bond rating is A1 from Moody's Investors Services.

The State imposes a legal limit of 8.625% of total equalized assessed valuation on the amount of general bond indebtedness. The City further limits their indebtedness, by ordinance, to 80.0% of the State limit.

# City of Rockford, Illinois

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2009

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As of December 31, 2009 the City's indebtedness was \$79,978,177 less than the City limit and \$115,906,471 less than the State limit.

Additional information on the City of Rockford's long-term debt can be found on Note III, G on pages 52 – 60 of this report.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Rockford is the industrial and business hub of the Rock River Valley and northwestern Illinois. Rockford's economy is diversified with manufacturing and medical as its primary base, while call center/office operations, distribution centers and educational institutions are becoming more important to the economy. The City of Rockford economic conditions are as follows:

- The average unemployment rate for the City of Rockford for the current year was 15.0 percent. However, the actual rate at year end was 16.3 percent, which is double the rate a year ago. This is higher than the State's average unemployment rate of 10.1 percent and the national average rate of 9.3 percent.
- Inflation in the metropolitan area compares to the national consumer price index.

#### City of Rockford MSA Non-Agricultural Wage and Salary Employment (Annual Averages)

	Unemployment rates				
	2009	2008	2007	2006	2005
Rockford	15.00%	9.10%	6.30%	5.30%	6.40%
State of Illinois	10.10%	6.50%	5.00%	4.50%	5.70%
United States	9.30%	5.80%	4.60%	4.60%	5.10%
Total Employment	144,956	160,400	166,000	172,400	170,500

All of these economic factors were taken into account when adopting the General Fund budget for 2009.

The City's goal in developing the 2010 budget was to continue offering citizens basic services, economic development efforts, and fiscal stability. Development and adoption of the 2010 budget was premised on maintaining a level of service equivalent to 2009, and continue the capital equipment program.

Budgeted expenditures in the General Fund are \$109,711,834, a decrease of less than 1 percent over the final 2009 budget of \$110,148,816. Employee contracts, pensions and health insurance costs make up the largest increases in the budget, while staff reductions and a temporary suspension of the City's capital improvement program accounts for the overall reduction.

In March 2010, the City Council approved the proposed budget after numerous revisions from the original proposed budget. Staff reviewed all revenues and expenditures, changes were made as necessary, and a balanced General Fund GAAP budget was adopted. This budget allows the City to maintain the necessary fund and cash balances, as well as allowing the 2011 budget process to begin on a sound financial footing.

City of Rockford, Illinois

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2009**

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**Requests for information**

This financial report is designed to provide a general overview of the City of Rockford's finances for all those with an interest in the Government's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 425 East State Street, Rockford, Illinois, 61104.

**CITY OF ROCKFORD, ILLINOIS**

**STATEMENT OF NET ASSETS**

December 31, 2009

ASSETS	Primary Government			Component Units	
	Governmental	Business-type	Total	Rockford Mass Transit District	Rockford Metropolitan Exposition, Auditorium and Office Building Authority
	Activities	Activities			
Cash and cash equivalents	\$ 46,699,870	\$ 1,408,496	\$ 48,108,366	\$ 2,837,030	\$ 95,944
Receivables, net	64,485,631	4,114,031	68,599,662	194,104	827,180
Internal balances	(191,064)	191,064	-	-	-
Due from other governments	23,274,371	115,081	23,389,452	-	-
Inventories	273,243	675,210	948,453	239,081	-
Prepaid items	722,689	-	722,689	198,971	286,086
Other assets	-	268,647	268,647	-	4,350,763
Restricted assets:					
Cash and cash equivalents	-	26,931,087	26,931,087	836,471	-
Net pension asset	599,964	-	599,964	-	-
Capital assets not depreciated	6,899,241	37,556,148	44,455,389	1,965,838	2,652,786
Capital assets, net of accumulated depreciation	543,265,601	143,595,191	686,860,792	12,926,826	25,590,922
<b>Total assets</b>	<b>686,029,546</b>	<b>214,854,955</b>	<b>900,884,501</b>	<b>19,198,321</b>	<b>33,803,681</b>
<b>LIABILITIES</b>					
Bank overdraft	8,521	-	8,521	-	-
Accounts payable and other accrued liabilities	10,769,328	6,156,547	16,925,875	283,109	1,197,558
Accrued payroll and benefits	1,550,015	90,281	1,640,296	1,252,585	177,560
Due to other governments	359,268	-	359,268	-	-
Unearned revenue	59,434,147	-	59,434,147	1,584,111	1,438,792
Other liabilities	7,897,460	30,974	7,928,434	-	-
Deposits and advances	-	155,975	155,975	-	-
Noncurrent liabilities:					
Due or payable within one year	24,028,133	3,691,173	27,719,306	-	1,001,090
Due or payable in more than one year	105,421,459	68,630,983	174,052,442	620,604	1,056,000
<b>Total liabilities</b>	<b>209,468,331</b>	<b>78,755,933</b>	<b>288,224,264</b>	<b>3,740,409</b>	<b>4,871,000</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	477,852,551	131,269,066	609,121,617	14,892,664	28,243,708
Restricted for:					
Capital projects	4,531,567	1,000,000	5,531,567	-	-
Debt service	5,437,870	4,661,406	10,099,276	-	-
Culture and recreation	4,027,957	-	4,027,957	-	-
Community development	1,545,431	-	1,545,431	-	-
Public health and welfare	191,115	-	191,115	-	-
Highways and streets	7,446,703	-	7,446,703	-	-
Employee and public liability trusts	-	-	-	221,572	-
Other purposes - Grants	46,891	-	46,891	-	-
Unrestricted	(24,518,870)	(831,450)	(25,350,320)	343,676	688,973
<b>Total net assets</b>	<b>\$ 476,561,215</b>	<b>\$ 136,099,022</b>	<b>\$ 612,660,237</b>	<b>\$ 15,457,912</b>	<b>\$ 28,932,681</b>

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2009

Functions/programs Primary government:	Net (Expenses) Revenues and Changes in Net Assets					Component Units	
	Program Revenues			Primary Government Business-Type Activities	Total	Rockford Mass Transit District	Rockford Metropolitan Exposition, Auditorium and Office Building Authority
	Expenses	Charges for Services	Operating Grants and Contributions				
Governmental activities:							
General government	\$ 14,561,840	\$ 5,426,375	\$ 353	\$ -	\$ (9,135,112)	\$ -	\$ (9,135,112)
Public safety	84,813,690	9,435,382	927,615	-	(74,450,693)	-	(74,450,693)
Streets, alleys and bridges	34,557,692	4,873,914	3,014,025	1,760,739	(24,909,014)	-	(24,909,014)
Community development	17,901,167	436,500	6,552,261	-	(10,912,406)	-	(10,912,406)
Sanitation and sewers	7,544,392	6,745,535	-	-	(798,857)	-	(798,857)
Culture and recreation	9,490,086	250,261	631,176	-	(8,608,649)	-	(8,608,649)
Public health and welfare	19,723,022	-	18,162,789	239,927	(1,320,306)	-	(1,320,306)
Interest and fiscal charges	4,716,887	-	-	-	(4,716,887)	-	(4,716,887)
Total governmental activities	193,308,776	27,167,967	29,288,219	2,000,666	(134,851,924)	-	(134,851,924)
Business-type activities:							
Water	18,865,983	21,671,106	-	749,767	-	3,554,890	3,554,890
Parking	2,202,193	1,794,059	-	-	-	(408,134)	(408,134)
Total business-type activities	21,068,176	23,465,165	-	749,767	-	3,146,756	3,146,756
Total primary government	\$ 214,376,952	\$ 50,633,132	\$ 29,288,219	\$ 2,750,433	(134,851,924)	\$ 3,146,756	(131,705,168)
Component units:							
Bus transportation	\$ 14,468,498	\$ 1,266,467	\$ 11,984,975	\$ 371,994	-	-	-
Metro Centre - coliseum-arena	10,295,278	7,474,276	-	6,408,018	-	-	-
Total component units	\$ 24,763,776	\$ 8,740,743	\$ 11,984,975	\$ 6,780,012	-	\$ (845,062)	\$ 3,587,016
General revenues:							
Taxes:							
Property taxes					58,379,104		
Sales taxes					35,756,775		
Metro Centre sales tax					3,538,842		
Motel and hotel tourism tax					1,490,316		
Local use tax					1,818,959		
Income tax					12,201,422		
Replacement tax					7,212,783		
Telecommunications tax					5,852,740		
Utility tax					1,119,215		
Franchise taxes					1,624,690		
Total taxes					128,994,846		
Unrestricted interest earnings					226,143	2,414	16,121
Miscellaneous					2,415,129		4,669
Total general revenues					131,636,118	2,414	20,790
Change in net assets					(3,215,806)	3,149,170	(824,272)
Net assets - beginning					479,777,021	132,949,852	612,726,873
Net assets - ending					\$ 476,561,215	\$ 136,099,022	\$ 612,660,237
					\$ 15,457,912	\$	\$ 28,932,681

The accompanying notes to the financial statements are an integral part of this statement.



**CITY OF ROCKFORD, ILLINOIS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

December 31, 2009

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 4,023,463	\$ 8,057	\$ -	\$ 8,050,973
Property taxes receivable, net	38,829,547	6,844,604	-	-	6,937,046
Accounts receivable, net	4,007,740	-	-	-	-
Notes receivable, net	-	-	1,404,295	213,021	-
Accrued interest receivable	243,258	-	29	7,423	-
Due from the Federal Government	-	-	934,937	1,316,629	-
Due from the State of Illinois	10,546,009	172,040	5,000	3,439,687	-
Due from other governmental units	503,879	-	-	-	-
Due from other funds	11,115,038	14,786	-	-	-
Total assets	\$ 65,245,471	\$ 11,054,893	\$ 2,352,318	\$ 4,976,760	\$ 14,988,019
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Bank overdraft	\$ 8,521	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,914,212	117,156	174,995	794,533	64,327
Accrued payroll and benefits	1,275,473	64,509	7,504	71,013	-
Due to other governments	359,268	-	-	-	-
Due to other funds	215,728	-	597,543	3,484,060	-
Deferred revenue	38,816,230	6,842,042	716	435,948	6,934,410
Other liabilities	649,816	3,229	26,129	91	-
Total liabilities	43,239,248	7,026,936	806,887	4,785,645	6,998,737
Fund balances:					
Reserved for encumbrances	195,966	-	47,113	-	-
Reserved for debt service	-	-	-	-	7,989,282
Reserved for long-term notes receivable	-	-	-	141,195	-
Reserved for intergovernmental agreement	-	-	765,000	-	-
Reserved for endowments	-	19,037	-	-	-
Unreserved, reported in:					
General Fund	21,810,257	-	-	-	-
Special Revenue Funds	-	4,008,920	733,318	49,920	-
Capital Project Fund	-	-	-	-	-
Total fund balances	22,006,223	4,027,957	1,545,431	191,115	7,989,282
Total liabilities and fund balances	\$ 65,245,471	\$ 11,054,893	\$ 2,352,318	\$ 4,976,760	\$ 14,988,019

*The accompanying notes to the financial statements are an integral part of this statement.*

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 12,216,919	\$ 13,280,491	\$ 37,579,903
-	4,936,157	57,547,354
74,186	872,224	4,954,150
-	-	1,617,316
-	-	250,710
201,326	-	2,452,892
4,088,788	545,174	18,796,698
516,502	715,694	1,736,075
529,091	1,217,807	12,876,722
<u>\$ 17,626,812</u>	<u>\$ 21,567,547</u>	<u>\$ 137,811,820</u>

\$ -	\$ -	\$ 8,521
3,870,900	1,912,707	8,848,830
13,093	7,365	1,438,957
-	-	359,268
-	7,989,319	12,286,650
1,931,245	5,039,485	60,000,076
3,415	-	682,680

<u>5,818,653</u>	<u>14,948,876</u>	<u>83,624,982</u>
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8,115,303	19,501	8,377,883
-	-	7,989,282
-	-	141,195
-	-	765,000
-	15,000	34,037
-	-	21,810,257
-	6,584,170	11,376,328
3,692,856	-	3,692,856
<u>11,808,159</u>	<u>6,618,671</u>	<u>54,186,838</u>
<u>\$ 17,626,812</u>	<u>\$ 21,567,547</u>	<u>\$ 137,811,820</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

December 31, 2009

Total fund balances for governmental funds \$ 54,186,838

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 6,899,241	
Construction in progress	-	
Improvements other than buildings, net of \$303,787 accumulated depreciation	242,559	
Buildings and improvements, net of \$26,302,017 accumulated depreciation	28,507,006	
Equipment, net of \$23,427,995 accumulated depreciation	6,224,559	
Infrastructure, net of \$329,100,845 accumulated depreciation	<u>505,414,286</u>	
Total capital assets (See Note III - C.)		547,287,651

Revenues in the statement of activities that do not provide current financial resources are deferred in the funds. 1,405,845

Internal service funds are used by the City to charge the cost of fleet management, building maintenance, inventories, auditing, 911 communications, risk management, information systems, and employee benefits for Illinois municipal retirement, unemployment, workers' compensation, and health insurance. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. Internal service fund net assets are: 253,729

Long-term assets and liabilities applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net assets. Also, during the year the City issued additional bonds. The amount borrowed is received in the governmental funds and increases fund balance. Deferred charges for issuance costs and discounts will also be amortized as an adjustment of interest expense over the remaining life of the debt.

Pension benefit asset	\$ 599,964	
Other post employment benefit liability	(1,181,323)	
Prepaid items	604,720	
Bonds payable	(104,735,000)	
Accrued interest on bonds	(174,999)	
Compensated absences	(5,898,958)	
Other liabilities	(7,214,780)	
EPA Water Pollution Obligations	(599,340)	
Development agreement	(8,945,076)	
Term note	(2,000,000)	
Section 108 guaranteed loans	(1,555,000)	
Deferred charge for issuance costs	301,128	
Deferred amount on refunding	<u>4,225,816</u>	
Total long-term assets and liabilities (See Note III - G.)		<u>(126,572,848)</u>

Total net assets of governmental activities \$ 476,561,215

*The accompanying notes to the financial statements are an integral part of this statement.*



**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2009

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund
<b>REVENUES</b>				
Taxes	\$ 66,566,073	7,405,648	\$ -	\$ -
Licenses and permits	3,366,106	-	-	-
Intergovernmental	25,331,576	1,034,330	4,917,994	18,402,716
Charges for services	7,483,764	87,369	-	-
Fines	1,625,998	162,892	-	-
Interest	106,641	6,494	41,187	6,362
Miscellaneous	439,779	381,681	82,116	74,754
Total revenues	<u>104,919,937</u>	<u>9,078,414</u>	<u>5,041,297</u>	<u>18,483,832</u>
<b>EXPENDITURES</b>				
Current:				
General government	11,731,422	-	-	-
Public safety	83,776,249	-	-	-
Streets, alleys and bridges	11,004,368	-	-	-
Community development	2,405,611	-	4,095,585	-
Sanitation and sewers	524,470	-	-	-
Culture and recreation	-	7,678,984	-	-
Public health and welfare	-	-	-	18,706,537
Debt service:				
Principal payments	-	-	90,000	-
Interest and fiscal charges	-	-	83,979	-
Capital outlay:				
General government	-	-	-	-
Public safety	171,787	-	-	-
Streets, alleys and bridges	16,323	-	-	-
Community development	-	-	-	-
Sanitation and sewers	-	-	-	-
Culture and recreation	-	516,677	-	-
Public health and welfare	-	-	-	239,927
Total expenditures	<u>109,630,230</u>	<u>8,195,661</u>	<u>4,269,564</u>	<u>18,946,464</u>
Excess of revenues over (under) expenditures	<u>(4,710,293)</u>	<u>882,753</u>	<u>771,733</u>	<u>(462,632)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunding bonds issued				
Payment to escrow agent				
Issuance of general obligation bonds	-	-	-	-
Issuance of promissory term note	-	-	-	-
Discount on issue of general obligation bonds	-	-	-	-
Premium on issue of general obligation bonds	-	-	-	-
Transfers in	4,748,900	-	-	182,754
Transfers out	(2,384,882)	(249,769)	(943,014)	-
Total other financing sources (uses)	<u>2,364,018</u>	<u>(249,769)</u>	<u>(943,014)</u>	<u>182,754</u>
Net change in fund balances	<u>(2,346,275)</u>	<u>632,984</u>	<u>(171,281)</u>	<u>(279,878)</u>
Fund balances - beginning	<u>24,352,498</u>	<u>3,394,973</u>	<u>1,716,712</u>	<u>470,993</u>
Fund balances - ending	<u>\$ 22,006,223</u>	<u>\$ 4,027,957</u>	<u>\$ 1,545,431</u>	<u>\$ 191,115</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 7,733,364	\$ 14,782,972	\$ 11,467,894	\$ 107,955,951
-	-	116,953	3,483,059
460,000	3,905,496	6,381,795	60,433,907
-	68,772	6,745,535	14,385,440
-	-	-	1,788,890
1,576	18,444	51,667	232,371
-	73,388	1,363,411	2,415,129
<u>8,194,940</u>	<u>18,849,072</u>	<u>26,127,255</u>	<u>190,694,747</u>
-	1,003,075	1,308,783	14,043,280
-	-	-	83,776,249
-	3,002,680	-	14,007,048
-	244,987	10,994,916	17,741,099
-	-	7,036,989	7,561,459
-	892,203	-	8,571,187
-	-	781,770	19,488,307
9,023,764	-	-	9,113,764
4,581,349	-	59,828	4,725,156
-	-	-	-
-	-	116,587	288,374
-	21,625,418	-	21,641,741
-	-	-	-
-	-	-	-
-	-	-	516,677
-	-	-	239,927
<u>13,605,113</u>	<u>26,768,363</u>	<u>20,298,873</u>	<u>201,714,268</u>
<u>(5,410,173)</u>	<u>(7,919,291)</u>	<u>5,828,382</u>	<u>(11,019,521)</u>
17,325,000			17,325,000
(16,754,910)			(16,754,910)
	-	4,300,000	4,300,000
		2,000,000	2,000,000
(72,424)	-	(11,339)	(83,763)
197,902			197,902
5,536,476	3,247,060	3,589,140	17,304,330
(1,500,000)	(415,963)	(11,810,702)	(17,304,330)
<u>4,732,044</u>	<u>2,831,097</u>	<u>(1,932,901)</u>	<u>6,984,229</u>
(678,129)	(5,088,194)	3,895,481	(4,035,292)
<u>8,667,411</u>	<u>16,896,353</u>	<u>2,723,190</u>	<u>58,222,130</u>
<u>\$ 7,989,282</u>	<u>\$ 11,808,159</u>	<u>\$ 6,618,671</u>	<u>\$ 54,186,838</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2009

Net change in fund balances - total governmental funds \$ (4,035,292)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. This is the amount by which capital outlays (\$22,686,719) exceeded depreciation (\$22,457,122) in the current period. (See Note III - C.) 229,597

In the statement of activities, the amount by which the carrying value of capital assets disposed of exceed the proceeds from the sale of those assets is reported as a loss. (1,137,731)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (439,049)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. (See Note III - G.)

Debt issued:

Refunding general obligation bonds issued	\$ (17,325,000)
Proceeds from general obligation bonds issued	(4,300,000)
Proceeds from development agreement	(2,100,498)
Proceeds from term note	(2,000,000)
Less: Discounts on bonds issued and issuance costs	94,337
Add: Premiums on bonds issued and issuance costs	(208,477)

Repayments:

Principal payment on bonds and other long-term obligations and amounts paid to escrow agent	<u>27,868,674</u>
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Net adjustment 2,029,036

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

This adjustment combines the net changes of the following balances. (See Note III - G.)

Other liabilities	\$ (983,612)
Net OPEB obligation	(410,132)
Net pension assets	(263,127)
Compensated absences	1,031,881
Prepaid expenses	159,008
Accrued interest on bonds	32,188
Amortization of deferred amount from refunding and bond discounts	(132,886)
Amortization of bond issue costs	<u>(50,041)</u>
Combined adjustment	(616,721)

Internal Service funds are used by the City to charge the cost of Central Garage, Building Maintenance, Central Stores, Auditing, 911 Communications, Risk Management, Data Processing and employee benefits for Illinois Municipal Retirement, Unemployment, Workmen's Compensation, and Health Insurance to individual funds. The net revenue (expenses) of the above Internal Service funds is reported within governmental activities. 754,354

Change in net assets of governmental activities \$ (3,215,806)

*The accompanying notes to the financial statements are an integral part of this statement.*



**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
December 31, 2009

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Parking System	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,165,840	\$ 242,656	\$ 1,408,496	\$ 9,119,967
Accounts receivable:				
Water	2,050,853	-	2,050,853	-
Estimated unbilled water usage	2,530,000	-	2,530,000	-
Other	30,770	72,085	102,855	116,101
Total accounts receivable	4,611,623	72,085	4,683,708	116,101
Less allowance for uncollectible accounts	(569,677)	-	(569,677)	-
Total accounts receivable, net	4,041,946	72,085	4,114,031	116,101
Accrued interest receivable	-	-	-	-
Due from other funds	190,168	896	191,064	33,739
Due from other governments	115,081	-	115,081	288,706
Inventories	675,210	-	675,210	273,243
Prepaid items	-	-	-	117,969
Current restricted assets:				
Cash and cash equivalents:				
Bond construction account	21,269,681	-	21,269,681	-
Revenue bond renewal and replacement account	1,000,000	-	1,000,000	-
Alternate bond current debt service account	4,661,406	-	4,661,406	-
Total current restricted assets	26,931,087	-	26,931,087	-
Total current assets	33,119,332	315,637	33,434,969	9,949,725
Noncurrent assets:				
Other assets - unamortized bond issue costs	268,647	-	268,647	-
Capital assets:				
Land	548,635	5,605,166	6,153,801	-
Construction in progress	31,402,347	-	31,402,347	-
Land improvements	457,119	-	457,119	20,000
Buildings and improvements	9,663,308	20,113,315	29,776,623	1,490,006
Equipment	4,494,061	339,070	4,833,131	6,152,253
Improvements other than land and buildings	163,699,324	4,271,839	167,971,163	269,307
Less accumulated depreciation	(48,041,960)	(11,400,885)	(59,442,845)	(5,054,375)
Total capital assets	162,222,834	18,928,505	181,151,339	2,877,191
Total noncurrent assets	162,491,481	18,928,505	181,419,986	2,877,191
Total assets	\$ 195,610,813	\$ 19,244,142	\$ 214,854,955	\$ 12,826,916

*The accompanying notes to the financial statements are an integral part of this statement.*

	<b>Business-type Activities</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Enterprise Funds</b>			
	<b>Water Utility</b>	<b>Parking System</b>	<b>Total</b>	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 6,004,482	\$ 13,860	\$ 6,018,342	\$ 1,745,499
Accrued interest payable	133,867	4,338	138,205	-
Accrued payroll and benefits	83,430	6,851	90,281	111,058
Due to other funds	-	-	-	814,875
Other liabilities	30,974	-	30,974	-
Deposits and advances	68,785	87,190	155,975	-
Compensated absences	60,245	12,221	72,466	118,788
General obligation alternate bonds payable (net of unamortized deferred refunding benefit)	3,010,693	23,013	3,033,706	-
IEPA loan	501,172	-	501,172	-
Refundable water main extension advances	83,829	-	83,829	-
Claims and judgments payable	-	-	-	5,226,847
Total current liabilities	<u>9,977,477</u>	<u>147,473</u>	<u>10,124,950</u>	<u>8,017,067</u>
Noncurrent liabilities:				
Compensated absences	358,990	29,608	388,598	223,733
Deferred revenue	-	-	-	839,916
Refundable water main extension advances	390,328	-	390,328	-
Customer water deposits	234,981	-	234,981	-
Installment purchase agreement	14,000,000	-	14,000,000	-
General obligation alternate bonds payable (net of unamortized deferred refunding benefit)	33,724,044	1,805,690	35,529,734	-
IEPA loan	18,087,342	-	18,087,342	-
Claims and judgments payable	-	-	-	3,492,471
Total noncurrent liabilities	<u>66,795,685</u>	<u>1,835,298</u>	<u>68,630,983</u>	<u>4,556,120</u>
Total liabilities	<u>76,773,162</u>	<u>1,982,771</u>	<u>78,755,933</u>	<u>12,573,187</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	114,169,264	17,099,802	131,269,066	2,877,191
Restricted:				
Capital projects	1,000,000	-	1,000,000	-
Debt service	4,661,406	-	4,661,406	-
Unrestricted	(993,019)	161,569	(831,450)	(2,623,462)
Total net assets	<u>\$ 118,837,651</u>	<u>\$ 17,261,371</u>	<u>\$ 136,099,022</u>	<u>\$ 253,729</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF REVENUE, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**

For the Year Ended December 31, 2009

	<b>Business-type Activities- Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Water Utility</b>	<b>Parking System</b>	<b>Totals</b>	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 21,552,933	\$ 1,231,912	\$ 22,784,845	\$ 44,611,711
Parking fines	-	536,827	536,827	47,000
Miscellaneous	118,173	25,320	143,493	1,244,953
Total operating revenues	<u>21,671,106</u>	<u>1,794,059</u>	<u>23,465,165</u>	<u>45,903,664</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	5,969,917	517,096	6,487,013	7,529,203
Services	4,654,459	424,151	5,078,610	34,084,466
Supplies and materials	1,047,216	25,101	1,072,317	2,173,632
Depreciation	3,427,706	712,212	4,139,918	547,659
Charges from General Fund	1,618,704	420,300	2,039,004	775,100
Miscellaneous	-	2,159	2,159	33,023
Total operating expenses	<u>16,718,002</u>	<u>2,101,019</u>	<u>18,819,021</u>	<u>45,143,083</u>
Operating income (loss)	<u>4,953,104</u>	<u>(306,960)</u>	<u>4,646,144</u>	<u>760,581</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Contributions from the State of Illinois	749,767	-	749,767	-
Interest revenue	1,359	1,055	2,414	2,948
Loss on disposal of capital assets	(402)	-	(402)	-
Interest expense and service fees	(2,255,468)	(99,187)	(2,354,655)	(9,175)
Amortization expense	(149,743)	(1,987)	(151,730)	-
Economic gain on refunding	257,632	-	257,632	-
Total nonoperating revenues (expenses)	<u>(1,396,855)</u>	<u>(100,119)</u>	<u>(1,496,974)</u>	<u>(6,227)</u>
Change in net assets	<u>3,556,249</u>	<u>(407,079)</u>	<u>3,149,170</u>	<u>754,354</u>
Total net assets - beginning	115,281,402	17,668,450	132,949,852	(500,625)
Total net assets - ending	<u>\$ 118,837,651</u>	<u>\$ 17,261,371</u>	<u>\$ 136,099,022</u>	<u>\$ 253,729</u>

*The accompanying notes to the financial statements are an integral part of this statement.*



**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

For the Year Ended December 31, 2009

	Business-type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Water Utility	Parking System	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 24,094,450	\$ 1,829,674	\$ 25,924,124	\$ 45,885,283
Other receipts	118,173	-	118,173	-
Payment to suppliers	(4,616,952)	(488,694)	(5,105,646)	(33,327,168)
Payment to employees	(6,075,771)	(531,010)	(6,606,781)	(7,798,448)
Payments for interfund services used	(1,190,810)	(420,300)	(1,611,110)	(775,100)
Payments to other funds	(1,618,704)	(47,987)	(1,666,691)	71,532
Net cash provided by (used for) operating activities	10,710,386	341,683	11,052,069	4,056,099
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital grants	-	-	-	-
Proceeds from sale of general obligation alternate bonds	4,325,000	-	4,325,000	-
Proceeds from installment purchase agreement	-	-	-	-
Proceeds from IEPA loan	16,373,200	-	16,373,200	-
Proceeds from sale of capital assests	799	-	799	-
Bond issue costs	456	-	456	-
Interest paid on general obligation alternate bonds	(1,705,354)	(99,187)	(1,804,541)	-
Interest paid on installment purchase agreement	(349,272)	-	(349,272)	-
Principal payment on general obligation alternate bonds	(2,905,000)	-	(2,905,000)	-
Principal refunding on general obligation alternate bonds	(4,305,000)	-	(4,305,000)	-
Principal payment on installment purchase agreement	(11,000,000)	-	(11,000,000)	-
Repayment to contractors for water mains	(99,549)	-	(99,549)	-
Capital asset acquisitions	(33,985,248)	-	(33,985,248)	(875,858)
Net cash provided by (used for) capital and related financing activities	(33,649,968)	(99,187)	(33,749,155)	(875,858)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on cash and cash equivalents	678,905	160	679,065	27,220
Net increase (decrease) in cash and cash equivalents	(22,260,677)	242,656	(22,018,021)	3,207,461
Cash and cash equivalents, beginning	50,357,604	-	50,357,604	5,912,506
Cash and cash equivalents, ending	\$ 28,096,927	\$ 242,656	\$ 28,339,583	\$ 9,119,967
Displayed as:				
Cash and cash equivalents	\$ 1,165,840	\$ 242,656	\$ 1,408,496	\$ 9,119,967
Restricted assets - cash and cash equivalents	26,931,087	-	26,931,087	-
	\$ 28,096,927	\$ 242,656	\$ 28,339,583	\$ 9,119,967

(Continued)

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

For The Year Ended December 31, 2006

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Parking System	Totals	
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 4,953,104	\$ (306,960)	\$ 4,646,144	\$ 760,581
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	3,427,706	712,212	4,139,918	547,659
Increase (decrease) from changes in:				
Accounts receivable	2,451,708	(3,019)	2,448,689	(24,383)
Allowance for uncollectible accounts	98,789	-	98,789	-
Due from other governmental units	-	-	-	(88,372)
Due from other funds	5,404	-	5,404	-
Prepaid items	-	-	-	187,509
Inventories	(20,800)	-	(20,800)	(802)
Accounts payable	(98,683)	(37,283)	(135,966)	349,985
Accrued payroll and benefits	(162,398)	(13,246)	(175,644)	(227,481)
Compensated absences	56,544	(668)	55,876	(41,763)
Due to other funds	-	(47,987)	(47,987)	71,532
Deferred revenue	-	38,634	38,634	94,375
Other liabilities	7,992	-	7,992	2,427,259
Deposits and advances	(8,980)	-	(8,980)	-
Total adjustments	5,757,282	648,643	6,405,925	3,295,518
Net cash provided by (used for) operating activities	\$ 10,710,386	\$ 341,683	\$ 11,052,069	\$ 4,056,099
<b>Noncash investing, capital and financing activities:</b>				
Loss on disposal of assets	\$ (402)		\$ (402)	\$ -
Distribution main contributed from developers	749,767	-	749,767	-
Accrued interest from IEPA loans converted to loan principle	(174,214)	-	(174,214)	-
Amortization of issue and discount costs paid in prior years	(132,490)	1,987	(130,503)	-
Amortization of revenue and general obligation bond refundings	(17,252)	-	(17,252)	-
Capital asset additions in accounts payable at year-end	5,672,449	-	5,672,449	-
Total noncash capital and related financing activities	\$ 6,097,858	\$ 1,987	\$ 6,099,845	\$ -

(Concluded)

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

December 31, 2009

	<u>Pension Trust Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 3,588,698</u>
Investments - retirement plans	
U.S. Treasury Strips	7,571,157
U.S. Treasury Notes	14,512,047
U.S. Treasury Bonds	5,934,093
Government National Mortgage Association	10,616,500
Government Backed Corporate Bonds	2,801,112
Federal Home Loan Bank Bonds	4,043,438
Federal Home Loan Mortgage Corporation	9,428,493
Federal National Mortgage Association	14,787,987
Federal Farm Credit Bonds	2,573,942
State and Local Government Securities	274,618
Small Cap Equity Common Stocks	23,840,627
Mid Cap Equity Common Stocks	6,895,327
Large Cap Equity Common Stocks	20,129,694
NTGI Collective Trust	64,685,929
ABN AMRO Stable Value Funds	16,817,681
Domestic Mutual Funds	39,641,936
International Mutual Funds	31,779,540
Total investments	<u>276,334,121</u>
Accrued interest receivable	<u>583,174</u>
Contributions receivable	<u>7,214,780</u>
Total assets	<u>287,720,773</u>
<b>LIABILITIES</b>	
Accrued liabilities	<u>145,491</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	<u>\$ 287,575,282</u>
(A schedule of funding progress is included in the Required Supplementary Information.)	

*The accompanying notes to the financial statements are an integral part of this statement.*

**CITY OF ROCKFORD, ILLINOIS**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**FIDUCIARY FUNDS**

For the Year Ended December 31, 2009

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 9,678,780
Plan member	3,858,145
Total contributions	<u>13,536,925</u>
Investment income:	
Net appreciation (depreciation) in fair value of investments	27,313,183
Interest and dividend income	5,418,019
	<u>32,731,202</u>
Less investment expense	<u>(840,777)</u>
Net investment income	<u>31,890,425</u>
Total additions	<u>45,427,350</u>
<b>DEDUCTIONS</b>	
Pension benefits	22,500,743
Refunds of contributions	268,036
Administrative expense	250,536
Total deductions	<u>23,019,315</u>
Change in net assets	22,408,035
Total net assets - beginning	<u>265,167,247</u>
Total net assets - ending	<u>\$ 287,575,282</u>

*The accompanying notes to the financial statements are an integral part of this statement.*



**NOTES TO THE FINANCIAL STATEMENTS**

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**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The City of Rockford, Illinois (the "City") is a municipal corporation governed by an elected mayor and a fourteen-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

**Discretely presented component units**

The City's component units consist of the following:

- Rockford Mass Transit District (the "District") - The District is a public service bus company organized to provide mass transit services to Rockford.
- Rockford Metropolitan Exposition, Auditorium and Office Building Authority (the "Authority") - The Authority operates the Metro Centre with its responsibility to arrange, finance and maintain industrial, cultural, theatrical, sports, trade, and other activities that meet the needs of the citizens of Rockford.

The governing boards of both the District and Authority are appointed by the City's Mayor and substantial funding is provided by the City for their operations. The City also guarantees certain debt of the District. Both are reported on a June 30 fiscal year. Separately issued financial statements may be obtained from their respective administrative offices located in Rockford, Illinois.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.);
- A change in fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). During fiscal 2002, the City elected to implement the general provisions of the Statement and have retroactively reported infrastructure (assets acquired prior to December 31, 2002) in the fiscal year ending December 31, 2006.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements report information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities with the difference reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the criteria of the two preceding categories.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function or segment. Program revenues include 1) fees, fines, and charges paid by recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Additionally the City reports columns for nonmajor governmental funds and internal service funds in its financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues from federal, state and local reimbursement type grants to be available if they are collected within one year of the end of the current fiscal period. The City considers all other revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes for which the availability period is 60 days. Expenditures are recorded when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, claims, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Property taxes, intergovernmental revenues, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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accrual and so have been recognized as revenues of the current fiscal year to the extent they are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, they are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by general revenues.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Enterprise Funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins as issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements or Interpretations issued after November 30, 1989.

As a general rule, the effect of inter-fund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and parking function of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's Water Utility and Parking System enterprise funds and of the City's internal service funds are charges to customers for services. The City also recognizes as operating revenues fines, rents and miscellaneous for the above enterprise funds. Operating expenses for the enterprise funds and internal service funds include salaries and benefits, services, supplies and materials, depreciation and charges from the General Fund. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

### **Fund Financial Statements**

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are reported as non-major funds.

The City reports the following major governmental funds and fund types:

#### **General Fund**

The General Fund is used to account for all revenues and expenditures applicable to the general operations of City government which are not more properly accounted for in another fund. The revenues of the General Fund are primarily derived from general property taxes, charges for services, fines, licenses and permits, and certain revenues from State and Federal sources. The expenditures of the General Fund primarily relate to general administration, police and fire protection, street inspection and maintenance, building inspection, and planning and zoning.

#### **Special Revenue Funds**

Public Library – This fund accounts for the operations and maintenance of the main downtown library and five branch libraries. Financing is mainly provided by a specific property tax levy. Other sources of revenue include replacement taxes, rental of books and films, etc.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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Community Development – This fund accounts for community rehabilitation projects, including certain community loans, financed primarily by community grants from the Federal government. Projects include public and private rehabilitation.

Human Services – This fund accounts for services provided by the City’s Human Services Department, including certain community loans. Services include Head Start program for children, weatherization of homes, payment of heat and electrical bills on behalf of persons in need and services related to intervention and correction programs for youths involved in anti-social behavior and gang activity. Financing is primarily provided by grants from the Federal government and the State of Illinois-Social Services and the General Fund.

**Debt Service Fund**

This fund is used to account for the accumulation of resources for the payment of principal and interest on general obligation bonds. Debt service resources are principally from property taxes levied by the City and transfers from other funds.

**Capital Projects Fund**

This fund is used to account for resources designated to construct or acquire general capital assets and major improvements. Such resources are provided principally from proceeds of general obligation bonds, Federal and State grants, interest earned on such funds and transfers from other funds.

The City reports the following major proprietary funds:

**Water Utility**

This fund is used to account for the provision of water services to the residents of the City and some residents of Winnebago County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service and billing and collection.

**Parking System**

This fund is used to account for the activities to provide ample parking for the business districts within the City. Activities include, but are not limited to, the collection of parking revenue from reserved spaces, the issuance and collection of parking fines, administration, operations, and maintenance.

Additionally, the City reports the following fund types:

**Internal Service Funds**

These funds account for central garage, building maintenance, central stores, Illinois Municipal Retirement, unemployment, workmen’s compensation, health insurance, 911 communications, risk management and information services provided to other departments and outside agencies on a cost-reimbursement basis.

**Pension Trust Funds**

These funds account for Police and Firefighter’s retirement systems, which accumulate resources for pension benefit payments to qualified employees.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**(1) CASH AND CASH EQUIVALENTS**

Cash received by the City is deposited in various bank accounts. The major account is the common pool account. The majority of the other bank accounts are for Special Revenue Funds, which are required by State statutes, and for Debt Service Funds which are required by bond ordinances. Miscellaneous accounts include petty cash and special donations. Cash accounts with a deficit balance are shown in the financial statements as bank overdrafts.

The City considers all cash accounts and all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. The City also considers investments held by the common pool account to be cash equivalents because the common pool is used essentially as a demand deposit account by the various funds of the City.

Total cash and cash equivalents for the City's governmental and business-type activities at December 31, 2009 is \$75,039,453, of which \$67,196,944 is in the common pool account.

**(2) DEPOSITS AND INVESTMENTS**

Investment activity is carried on by the City in an investment pool, except for those funds required to maintain their investments separately. The funds included in the pool participate in the earnings of the pool in proportion to their average balance therein. Should any of these funds have an average deficit in the pool, they are charged interest accordingly.

State statutes authorize the City and its component units to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the Illinois Funds Investment Pool.

The City's (including its component units) investments are carried at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments in mutual funds are reported at their cash redemption value. Unallocated insurance contracts are reported at contract value. Investments that do not have an established market value are reported at estimated fair values.

**(3) RECEIVABLES AND PAYABLES**

Property taxes receivable are recognized at the time they are levied. The current year's levy was adopted December 12, 2009. Property taxes are an enforceable lien on property on January 1 and are payable in two installments in June and September subsequent to the year of the levy. The 2009 levy is deferred as it is intended to finance fiscal year 2010.

The Property Tax Extension Limitation Law imposes mandatory property tax limitations on the ability of taxing districts in Illinois to raise revenues through unlimited property tax increases. The increase in property tax extensions is limited to the lesser of 5% or the percentage increase in the Consumer Price Index for all urban consumers. Even taxes levied for tort immunity, for prevention and safety, municipal retirement and social security purposes are subject to the limitation provisions. The amount of the limitation may be adjusted for new property added or annexed to the tax base and due to voter approved increase.

All trade and property tax receivables are shown net of allowance for uncollectibles. The property tax receivable allowance is equal to 1 percent of outstanding property taxes at December 31, 2009.

Notes receivable in the governmental funds consist primarily of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**(4) INTERFUND RECEIVABLES AND PAYABLES**

The City has the following types of transactions between funds:

**Loans and Advances**—amounts provided with a requirement for repayment. In the fund financial statements, interfund loans are reported as due from other funds in lender funds and due to other funds in borrower funds. Any residual balances outstanding between the governmental activities and business-type activities are reported as internal balances in the government-wide statement of net assets.

**Services provided and used**—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as due to/from other funds in the fund balance sheets or fund statements of net assets.

**Reimbursements**—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers**—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers in/out are reported as a separate category after non-operating revenues and expenses.

**(5) INVENTORIES AND PREPAID EXPENSES**

Inventories of Proprietary Fund Types and Component Units are carried at the lower of cost (first-in, first-out method) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

**(6) RESTRICTED ASSETS**

Certain proceeds of Water Utility Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and cash equivalents on the balance sheet because their use is limited by applicable bond covenants. The “bond construction account” (\$21,269,681) is used to report those proceeds of bond issuance that are restricted for use in construction. The “revenue bond renewal and replacement account” (\$1,000,000) is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The “alternate bond current debt service account” (\$4,661,406) is used to segregate resources accumulated for alternate bond debt service payments over the next twelve months.

These accounts are all presented in the restricted asset accounts in both government-wide and fund financial statements.

It is the City’s policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**(7) CAPITAL ASSETS**

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In accordance with the prospective reporting of infrastructure assets allowed under GASB Statement No. 34, infrastructure assets acquired prior to January 1, 2002, have been recorded on the government wide financial statements as of January 1, 2006.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, buildings, infrastructure, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Property and Equipment</u>	<u>Years</u>
Infrastructure	20-99
Buildings	20-50
Building Improvements	20
Equipment	2-15
Improvements Other Than Buildings	2-15
Land Improvements	15-40

**(8) DEFERRED / UNEARNED REVENUES**

Deferred and unearned revenues are those amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but which revenue recognition have not yet been met because such amounts have not yet been earned.

**(9) COMPENSATED ABSENCES**

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, which means amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. 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.

**(10) LONG-TERM OBLIGATIONS**

In the government-wide financial statements and proprietary fund statements of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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(11) FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund and special revenue funds except for the Veteran's Scholarship, Local Law Enforcement Block Grant, Flex Care and Justice Assistance Grant funds. In addition, annual budgets are not adopted for the City's Debt Service or Capital Projects funds. The budget represents departmental appropriations, expenditures and other uses, as authorized by the City's appropriation ordinance, and includes revisions authorized by the City Council to reflect changes in departmental programs. All appropriations of the budgetary fund (General and Special Revenue funds) automatically lapse at year-end. There is no difference between GAAP and budgetary basis of accounting.

The appropriated budget is prepared by fund and department. Transfers of appropriations between departments within the General Fund require the approval of the City Council. The level of budgetary control is the department level (fund level for Special Revenue funds). The City Council may amend the budget in total by a supplemental appropriation ordinance after June 30, per State statutes. Management may amend the budget during the year within a department, without seeking the approval of the governing body.

Encumbrances, which represent purchase orders, contracts and other commitments for goods and services not yet received, are reported as reservations of fund balances in the governmental funds. Encumbrances are not recorded as expenditures or liabilities in the financial statements. Actual expenditures are recognized when the goods or services are received.

**B. EXCESS OF EXPENDITURES AND OTHER USES OVER APPROPRIATIONS**

The City's budget consists of appropriations for both expenditures and other financing uses. The following funds have exceeded their departmental appropriations for the year by the amount shown:

**MAJOR FUNDS:**

General Fund	
Legal department	\$ (5,237)
Finance office	(34,425)
Personnel department	(39,359)
Fire Department	(110,681)
Public works - Traffic	(337,504)
Public works - Engineering	(75,721)
Public works - Street and sewer	(735,516)
Community Development - Administration	(26,138)
Community Development Fund	(1,169,040)
Human Services Fund	(6,387,962)

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**NONMAJOR FUNDS:**

Redevelopment Fund	\$ (1,664,619)
RKFD Metro Agency for Planning Fund	(351,932)
Tax Increment Financing Area - East Side Fund	(47,792)
Tax Increment Financing Area - Seventh Street Fund	(142,720)
Tax Increment Financing Area - South Rockford Fund	(1,195)
Tax Increment Financing Area - Springfield Corners Fund	(101,375)
Tax Increment Financing Area - Rockford Global Trade Park Fund	(996,306)
Tax Increment Financing Area - Hope Six Fund	(8,417)
Tax Increment Financing Area - Kishwaukee/Harrison Fund	(21,493)
Tax Increment Financing Area - West State & Central Fund	(74,421)
Tax Increment Financing Area - West Side II Fund	(1,593)

**C. DEFICIT FUND EQUITY**

The following funds have deficit fund balances/net assets as of December 31, 2009:

**Special Revenue Funds:**

Redevelopment	\$ (3,408,510)
Special Projects	(85,719)
RKFD Metro Agency for Planning	(230,057)
Tax Increment Financing Area - Rockford Global Trade Park Fund	(234,772)
Tax Increment Financing Area - North Main Fund	(314,608)
Tax Increment Financing Area - River Oaks Fund	(530,758)
Tax Increment Financing Area - Garrison Fund	(276,000)
Tax Increment Financing Area - Hope Six Fund	(183,329)
Tax Increment Financing Area - Preston / Central Fund	(1,267,874)
Tax Increment Financing Area - West State & Central Fund	(32,341)
Tax Increment Financing Area - West State & Kilburn Fund	(22,735)
Tax Increment Financing Area - West Side II Fund	(17,182)
Tax Increment Financing Area - Rockford Global Trade Park II Fund	(11,520)
Tax Increment Financing Area - North Main and Whitman Fund	(158,406)
Tax Increment Financing Area - Broadway Fund	(134,898)

**Internal Service Funds:**

Workman's Compensation Fund	\$ (2,530,572)
Auditing Fund	(260)
911 Communications Fund	(3,181)
Risk Management Fund	(1,897,240)

Special Revenue tax increment financing area fund's deficits will be alleviated by future property tax revenues. The Redevelopment fund's deficit will be alleviated with future sales tax revenues and a debt restructuring. The Special Projects fund's deficit will be alleviated by future license and permit revenues. The Internal Services fund's deficits will be alleviated from increased rate charges to participating funds.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The carrying values of deposits in financial institutions and investments at December 31, 2009 are as follows:

	<b>Primary Government</b>	<b>Pension Trust Funds</b>	<b>Component Units</b>
Deposits in financial institutions	\$ 5,694,864	\$ 179,279	\$ 3,769,445
Overdrafts	(8,521)	-	-
Investments	69,344,589	-	-
Investments-pension trust funds	-	279,743,540	-
	<u>\$ 75,030,932</u>	<u>\$ 279,922,819</u>	<u>\$ 3,769,445</u>

These amounts are reported in the accompanying Statements of Net Assets at December 31, 2009 as follows:

	<b>Primary Government</b>	<b>Pension Trust Funds</b>	<b>Component Units</b>
Cash and cash equivalents:			
Unrestricted	\$ 48,108,366	\$ -	\$ 2,932,974
Restricted	26,931,087	-	836,471
Pension funds	-	3,588,698	-
Investments:			
Unrestricted	-	276,334,121	-
Restricted	-	-	-
Bank overdraft	(8,521)	-	-
	<u>\$ 75,030,932</u>	<u>\$ 279,922,819</u>	<u>\$ 3,769,445</u>

The primary government of the City (excluding the pension trust funds), the City's component units, and each pension trust fund have adopted separate investment policies.

***Primary Government (excluding the pension trust funds):***

***Custodial Credit Risk – Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The primary government's (excluding the pension trust funds) policy with respect to custodial credit risk on deposits requires collateralization on all certificates of deposit purchased after January 1, 1999. The amount of collateral should be at least 110% of the total investment less the amount insured by the FDIC or the FSLIC. As of December 31, 2009, all of the City's deposits were insured or collateralized.

***Interest Rate Risk – Investments.*** As of December 31, 2009, the primary government (excluding the pension trust funds) had the following investments and maturities:

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
Illinois Funds*	\$ 38,298,912	\$ 38,298,912	\$ -	\$ -	\$ -
U.S. Treasury Bonds and Notes	12,058,577	-	8,174,657	3,883,920	-
Federal Farm Credit	1,972,500	-	-	1,972,500	-
Federal Home Loan Bank	5,998,140	-	5,998,140	-	-
Federal Home Loan Mortgage	6,114,280	-	6,114,280	-	-
Federal National Mortgage Association	4,902,180	-	-	4,902,180	-
<b>Total</b>	<b>\$ 69,344,589</b>	<b>\$ 38,298,912</b>	<b>\$ 20,287,077</b>	<b>\$ 10,758,600</b>	<b>\$ -</b>

\*The Illinois Funds Investment Pool (Pool) is not registered with the SEC. The Pool is administered by the Illinois State Treasury and oversight is provided by the Auditor General's Office of the State of Illinois. The fair value of the positions in the Pool is the same as the value of the Pool shares. Because the Pool had a weighted average maturity of less than one year as of December 31, 2009, it has been presented as an investment with a maturity of less than one year.

The primary government (excluding the pension trust funds) has adopted a policy in regards to interest rate risk that states that the maximum maturity for its investments shall be under 15 years. The average maturity of the total portfolio shall not exceed 5 years. As of December 31, 2009, 80% of the City's portfolio will mature in 5 or fewer years.

*Credit Risk – Investments.* Statutes authorize the primary government to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool. The primary government's investment policy does not further limit the allowed investments.

**Credit Ratings**  
**December 31, 2009**

	<b>Total Fair Value</b>	<b>Credit Rating</b>		
		<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Fitch</b>
Illinois Funds	\$ 38,298,912	NR	AAA	NA
Federal Farm Credit Obligations	1,972,500	Aaa	AAA	NA
Federal Home Loan Bank Obligations	5,998,140	Aaa	AAA	NA
Federal Home Loan Mortgage Corporation Obligations	6,114,280	Aaa	AAA	AAA
Federal National Mortgage Association	4,902,180	AAA	AAA	AAA

NR – not rated.

NA – not available.

*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's investment policy does not address custodial credit risk. As of December 31, 2009, the City's investments were not exposed to custodial credit risk. All investments were held by the City's agent in the name of the City.

*Concentration of Credit Risk – Investments.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The primary government has adopted a policy addressing concentrations of credit risk. The policy states that U.S. Treasury Securities cannot exceed 50% of the portfolio, U.S.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Government Agencies and Instrumentalities of Government Sponsored Corporations cannot exceed 50% of the portfolio, total certificates of deposits cannot exceed 50% of the portfolio, certificates of deposit of any one financial institution can not exceed 20% of the portfolio, commercial paper cannot exceed 15% of the portfolio, Illinois Funds cannot exceed 50% of the portfolio, and securities purchased for interest rate play cannot exceed 25% of the portfolio.

At December 31, 2009, the primary government had the following investments (excluding securities explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments) which exceed 5% of the total investment portfolio:

	% of Portfolio
Federal Home Loan Bank Bonds	8.6%
Federal National Mortgage Association	7.1%
Federal Home Loan Mortgage Corporation Obligations	8.8%

***Firefighter's Pension Fund:***

***Custodial Credit Risk – Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the Firefighter's Pension Fund deposits may not be returned to it. The Firefighter's Pension Fund does not have a deposit policy for custodial credit risk. As of December 31, 2009, the Firefighter's Pension Fund bank balances were not exposed to custodial credit risk.

***Interest Rate Risk – Investments.*** As of December 31, 2009, the Firefighter's Pension Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury Strip Bonds	\$ 7,571,157	\$ -		\$ 2,200,200	\$ 5,370,957
U.S. Treasury Bills, Notes and Bonds	20,446,140	6,045,149	7,675,528	5,232,488	1,492,975
Government National Mortgage Association	10,616,500	-	37,314	432,556	10,146,630
Federal Farm Credit	2,573,942	-	302,673	2,271,269	-
Federal Home Loan Bank	4,043,438	236,763	809,768	2,996,907	-
Federal Home Loan Mortgage	9,428,493	-	1,485,926	2,794,113	5,148,454
Municipal Bonds	274,618	-	274,618	-	-
Federal National Mortgage Association	14,787,987	-	1,777,369	4,912,170	8,098,448
National Archives Authority	1,308,867	-	-	1,308,867	-
Tennessee Valley Authority	1,492,245	-	1,492,245	-	-
<b>Total</b>	<b>\$ 72,543,387</b>	<b>\$ 6,281,912</b>	<b>\$ 13,855,441</b>	<b>\$ 22,148,570</b>	<b>\$ 30,257,464</b>

The Firefighter's Pension Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit Risk – Investments.*** State statutes authorize the Firefighter's Pension Fund to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, the Illinois Funds Investment Pool, certain non-U.S. Government obligations, mortgages, veteran's loans, common and preferred stocks, mutual funds and life insurance company contracts, subject to limitations. The Firefighter's Pension Fund does not have a formal policy beyond State statute authorizations.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Credit Ratings  
December 31, 2009

	Total Fair Value	Credit Rating		
		Moody's	Standard & Poor's	Fitch
<b>Federal agency bonds:</b>				
Municipal Bonds	\$ 274,618	AAA	AAA	NR
Federal National Mortgage Association	14,787,987	Aaa	AAA	AAA
Federal Home Loan Mortgage Corporation	9,428,493	Aaa	AAA	AAA
Federal Farm Credit	2,573,942	Aaa	AAA	NR
Federal Home Loan Bank	4,043,438	Aaa	AAA	NR
National Archives Authority	1,308,867	NR	AAA	NR
Tennessee Valley Authority	1,492,245	NR	AAA	AAA

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Firefighter's Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Firefighter's Pension Fund's investment policy does not address custodial credit risk. As of December 31, 2009, the Firefighter's Pension Fund investments were not exposed to custodial credit risk. All investments were held by the Firefighter's Pension Fund's agent in the name of the Firefighter's Pension Fund.

*Concentration of Credit Risk – Investments.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Firefighter's Pension Fund places no limit on the amount the fund may invest in any one issuer.

At December 31, 2009, the Firefighter's Pension Fund has the following investments (excluding securities explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments) which exceed 5% of total plan net assets:

	<u>% of Plan Net Assets</u>
Federal Home Loan Mortgage Corporation	7.1
Federal National Mortgage Association	11.1

***Police Pension Fund:***

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the Police Pension Fund's deposits may not be returned to it. The Police Pension Fund does not have a deposit policy for custodial credit risk. As of December 31, 2009, the Police Pension Fund investments were not exposed to custodial credit risk.

*Interest Rate Risk – Investments.* As of December 31, 2009, the Police Pension Fund had the following weighted average maturities on their fixed income investments.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

<u>Investment Type</u>	Fair Fair Value	Weighted Average Maturity In Years
<b>Mutual Funds:</b>		
Northern Trust Global Investments - Long Term Daily Collective Fund	\$ 4,087,819	20.51
Northern Trust Global Investments - 1 - 10 Year Daily Collective Fund	60,598,110	4.00
ABN AMRO Income Plus Fund	16,817,681	2.73
	<u>\$ 81,503,610</u>	<u>4.99</u>

The Police Pension Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk – Investments.* State statutes authorize the Police Pension Fund to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, the Illinois Funds Investment Pool, certain non-U.S. Government obligations, mortgages, veteran’s loans, common and preferred stocks, mutual funds and life insurance company contracts, subject to limitations. The Police Pension Fund does not have a formal policy beyond State statute authorizations.

The credit ratings of the Police Pension Fund’s fixed income securities are as follows:

	Credit Ratings December 31, 2009		
	Total Fair Value	Credit Rating	
		Moody's	Standard & Poor's
<b>Mutual Funds:</b>			
Northern Trust Global Investments - Long Term Daily Collective Fund	\$ 4,087,813	AA1	AAA
Northern Trust Global Investments - 1 - 10 Year Daily Collective Fund	60,598,110	AA1	AAA
ABN AMRO Stable Value Fund	16,817,681	Aa3	AA-

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Police Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Police Pension Fund’s investment policy does not address custodial credit risk. As of December 31, 2009, the Police Pension Fund’s investments were not exposed to custodial credit risk. All investments were held by the Police Pension Fund’s agent in the name of the Police Pension Fund.

*Concentration of Credit Risk – Investments.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Police Pension Fund places no limit on the amount the fund may invest in any one issuer.

At December 31, 2009, the Police Pension Fund had no investments (excluding securities explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments) which exceed 5% of total plan net assets.

**Component Units:**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the Component Units’ deposits may not be returned to them. The Component Units do not have deposit policies for custodial credit

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

risk. As of December 31, 2009, the Component Units had bank balances totaling \$3,769,445. All of this amount was collateralized, but not by securities held in the Component Units' name.

*Interest Rate Risk – Investments.* As of December 31, 2009, the Component Units had no investments and no formal policies with regards to managing interest rate risk.

*Credit Risk – Investments.* Statutes authorize the Component Units to invest in securities issued or guaranteed by the U.S. Government, interest-bearing accounts in federally insured financial institutions, short-term obligations (less than 280 days) of U.S. corporations with assets over \$500 million rated in the three highest classifications by at least two rating agencies, insured accounts of an Illinois credit union chartered under Federal or Illinois law, money market mutual funds with portfolios of securities issued or guaranteed by the U.S. Government or agreements to repurchase these same types of obligations, Illinois Funds and repurchase agreement which meet instrument transaction requirements of Illinois law. There is no credit quality rating available for the Component Units' investments at December 31, 2009.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Component Units will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The Component Units' investment policy does not address custodial credit risk. As of December 31, 2009, the Component Units' investments were uncollateralized.

*Concentration of Credit Risk – Investments.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Component Units place no limit on the amount the entity may invest in any one issuer.

At December 31, 2009, the Component Units had no investments which exceed 5% of total net assets of the component units.

**B. RECEIVABLES AND PAYABLES**

Receivables and payables as of December 31, 2009 for the City's individual major funds and non-major, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund	Capital Project Fund	Nonmajor Governmental Funds	Water Utility Fund	Parking System Fund	Internal Service Funds
<b>Receivables:</b>										
Taxes	\$ 40,963,388	\$ 6,963,944	\$ -	\$ -	\$ 7,056,405	\$ -	\$ 5,504,936	\$ -	\$ -	\$ -
Accounts	5,885,374	-	-	-	-	74,186	717,628	4,611,623	72,085	116,101
Notes	-	-	1,894,928	641,778	-	-	3,358,249	-	-	-
Interest	243,258	-	29	7,423	-	-	-	-	-	-
Gross receivables	47,092,020	6,963,944	1,894,957	649,201	7,056,405	74,186	9,580,813	4,611,623	72,085	116,101
Less: Allowance for uncollectibles	(4,011,476)	(119,340)	(490,633)	(428,757)	(119,359)	-	(3,772,432)	(569,677)	-	-
Net total receivables	\$ 43,080,544	\$ 6,844,604	\$ 1,404,324	\$ 220,444	\$ 6,937,046	\$ 74,186	\$ 5,808,381	\$ 4,041,946	\$ 72,085	\$ 116,101
<b>Due from other governmental units:</b>										
Federal	\$ -	\$ -	\$ 934,937	\$ 1,316,629	\$ -	\$ 201,326	\$ -	\$ -	\$ -	\$ -
State	10,546,009	172,040	5,000	3,439,687	-	4,088,788	715,694	-	-	-
Other	503,879	-	-	-	-	516,502	545,174	115,081	-	288,706
	\$ 11,049,888	\$ 172,040	\$ 939,937	\$ 4,756,316	\$ -	\$ 4,806,616	\$ 1,260,868	\$ 115,081	\$ -	\$ 288,706
<b>Payables:</b>										
Vendors	\$ 1,914,212	\$ 117,156	\$ 174,995	\$ 794,533	\$ 64,327	\$ 3,870,900	\$ 1,912,707	\$ 6,004,482	\$ 13,860	\$ 1,745,499
Accrued interest	-	-	-	-	-	-	-	133,867	4,338	-
	\$ 1,914,212	\$ 117,156	\$ 174,995	\$ 794,533	\$ 64,327	\$ 3,870,900	\$ 1,912,707	\$ 6,138,349	\$ 18,198	\$ 1,745,499

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**C. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2009 was as follows:

**Primary Government**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases and Adjustments</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,875,924	\$ 23,317		\$ 6,899,241
Total capital assets, not being depreciated	<u>6,875,924</u>	<u>23,317</u>	-	<u>6,899,241</u>
Capital assets, being depreciated:				
Land improvements	745,719	14,861	-	760,580
Buildings and improvements	55,649,101	649,927	-	56,299,028
Equipment	34,630,826	1,249,053	-	35,879,879
Infrastructure	816,785,747	21,625,419	(3,896,033)	834,515,133
Total capital assets, being depreciated	<u>907,811,393</u>	<u>23,539,260</u>	<u>(3,896,033)</u>	<u>927,454,620</u>
Less accumulated depreciation for:				
Land improvements	(464,617)	(21,086)	-	(485,703)
Buildings and improvements	(25,180,443)	(1,676,360)	-	(26,856,803)
Equipment	(25,306,990)	(2,438,677)	-	(27,745,667)
Infrastructure	(312,990,489)	(18,868,659)	2,758,302	(329,100,846)
Total accumulated depreciation	<u>(363,942,539)</u>	<u>(23,004,782)</u>	<u>2,758,302</u>	<u>(384,189,019)</u>
Total capital assets, being depreciated, net	<u>543,868,854</u>	<u>534,478</u>	<u>(1,137,731)</u>	<u>543,265,601</u>
Governmental activities capital assets, net	<u>\$ 550,744,778</u>	<u>\$ 557,795</u>	<u>\$ (1,137,731)</u>	<u>\$ 550,164,842</u>

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases and Adjustments</b>	<b>Ending Balance</b>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,087,008	\$ 66,793	-	\$ 6,153,801
Construction in progress	25,081,855	31,385,989	(25,065,497)	31,402,347
Total capital assets, not being depreciated	<u>31,168,863</u>	<u>31,452,782</u>	<u>(25,065,497)</u>	<u>37,556,148</u>
Capital assets, being depreciated:				
Land improvements	324,379	132,740	-	457,119
Buildings and improvements	24,976,144	4,800,479	-	29,776,623
Improvements other than buildings	146,600,908	21,370,255	-	167,971,163
Equipment	3,953,813	930,805	(51,487)	4,833,131
Total capital assets, being depreciated	<u>175,855,244</u>	<u>27,234,279</u>	<u>(51,487)</u>	<u>203,038,036</u>
Less accumulated depreciation for:				
Land improvements	(224,664)	(14,069)	-	(238,733)
Buildings and improvements	(10,073,388)	(762,626)	-	(10,836,014)
Improvements other than buildings	(42,302,148)	(3,119,333)	-	(45,421,481)
Equipment	(2,751,261)	(243,890)	48,534	(2,946,617)
Total accumulated depreciation	<u>(55,351,461)</u>	<u>(4,139,918)</u>	<u>48,534</u>	<u>(59,442,845)</u>
Total capital assets, being depreciated, net	<u>120,503,783</u>	<u>23,094,361</u>	<u>(2,953)</u>	<u>143,595,191</u>
Business-type activities capital assets, net	<u>\$ 151,672,646</u>	<u>\$ 54,547,143</u>	<u>\$ (25,068,450)</u>	<u>\$ 181,151,339</u>

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Depreciation expense was charged to functions/programs of the primary governments as follows:

Governmental activities:	
General government	\$ 722,992
Public safety	1,365,095
Streets, alleys and bridges	19,302,746
Community development	15,421
Culture and recreation	913,483
Public health and welfare	137,385
Internal service	547,660
Total depreciation expense - governmental activities	<u>\$ 23,004,782</u>
Business - type activities:	
Water	\$ 3,427,706
Parking	712,212
Total depreciation expense - business-type activities	<u>\$ 4,139,918</u>

**Construction commitments**

The City has active construction projects as of December 31, 2009. The projects include street resurfacing, widening and construction of existing streets and bridges, drainage projects, sidewalks, and water system improvements. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Commitment</u>
Base Well Rehab	\$ 16,222,279
Water Main Construction	2,815,911
Water Rehab Plan	2,000,994
Morgan Street Bridge	1,467,915
Meadows Of Spring Brook	1,026,055
Kishwaukee St Overhead Relocation	742,668
Keith Creek Watershed Feasibility	736,000
Perrycreek Interchange	637,311
Kishwaukee St Bridge Over Keith Crk	562,240
Harrison Ave Rehab	492,328
Kent Creek Trunk	398,205
Reservoir Demolition	281,890
Colorado Ave Resurfacing	224,753
Whitman Street Interchange	195,706
Downtown Streetscape	187,357
Harrison Ave-20th To Mulford	181,805
I-90 & E State St Multi-Use Path	163,601
Harmon Park Drainage Study	149,397
C-W Residential Resurfacing	141,284
Park Ave PH II Recon	112,768
Whitewater Engineering	108,552
Sandy Hollow Road Emergency Repairs	102,738
Harrison Ave Br Over RR	101,883
Logistics Parkway Extension	100,849
Total	<u>\$ 29,154,487</u>

No future financing is required as a result of these commitments.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**Discretely presented component units**

Activity for the District for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,965,838	\$ -	\$ -	\$ 1,965,838
Construction work in progress	2,897,307	-	(2,897,307)	-
Total capital assets, not being depreciated	<u>4,863,145</u>	-	<u>(2,897,307)</u>	<u>1,965,838</u>
Capital assets, being depreciated:				
Buildings and improvements	6,272,579	3,092,835	(8,587)	9,356,827
Equipment	15,152,956	176,466	(296,341)	15,033,081
Total capital assets, being depreciated	<u>21,425,535</u>	<u>3,269,301</u>	<u>(304,928)</u>	<u>24,389,908</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,040,709)	(231,645)	8,587	(3,263,767)
Equipment	(7,319,563)	(1,176,093)	296,341	(8,199,315)
Total accumulated depreciation	<u>(10,360,272)</u>	<u>(1,407,738)</u>	<u>304,928</u>	<u>(11,463,082)</u>
Total capital assets, being depreciated, net	<u>11,065,263</u>	<u>1,861,563</u>	<u>-</u>	<u>12,926,826</u>
District capital assets, net	<u>\$ 15,928,408</u>	<u>\$ 1,861,563</u>	<u>\$ (2,897,307)</u>	<u>\$ 14,892,664</u>

Activity for the Authority for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,597,014		\$ -	\$ 2,597,014
Construction in progress	1,267,223	6,616,299	(7,827,750)	55,772
Total capital assets, not being depreciated	<u>3,864,237</u>	<u>6,616,299</u>	<u>(7,827,750)</u>	<u>2,652,786</u>
Capital assets, being depreciated:				
Buildings and improvements	24,748,986	7,636,740	(146,500)	32,239,226
Equipment	8,280,701	191,010	-	8,471,711
Total capital assets, being depreciated	<u>33,029,687</u>	<u>7,827,750</u>	<u>(146,500)</u>	<u>40,710,937</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,515,644)	(641,708)	-	(10,157,352)
Equipment	(4,510,990)	(451,673)	-	(4,962,663)
Total accumulated depreciation	<u>(14,026,634)</u>	<u>(1,093,381)</u>	<u>-</u>	<u>(15,120,015)</u>
Total capital assets, being depreciated, net	<u>19,003,053</u>	<u>6,734,369</u>	<u>(146,500)</u>	<u>25,590,922</u>
Authority capital assets, net	<u>\$ 22,867,290</u>	<u>\$ 13,350,668</u>	<u>\$ (7,974,250)</u>	<u>\$ 28,243,708</u>

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**D. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of December 31, 2009 is as follows:

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that payments related to certain transactions between funds have not been paid or received as of December 31, 2009, they are reflected below and reported in the financial statements as due from or due to other funds.

Due to/from other funds:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Purpose</b>	<b>Amount</b>	
General	Community Development	Interfund cash advances	\$ 597,543	
	Human Services	Interfund cash advances	3,471,177	
	Human Services	Interfund interest on common cash	12,883	
	Nonmajor governmental	Interfund cash advances	6,283,131	
	Nonmajor governmental	Interfund interest on common cash	27,296	
	Enterprise parking	Interfund interest on common cash	-	
	Internal Service	Interfund cash advances	395,840	
	Internal Service	Interfund interest on common cash	1,458	
	Internal Service	Interfund loan	325,710	
			<u>11,115,038</u>	
Public Library	General	Interfund interest on common cash	<u>14,786</u>	
Capital Projects	General	Interfund interest on common cash	45,468	
	Nonmajor governmental	Future Motor Fuel Tax receipts and	483,623	
			<u>529,091</u>	
Nonmajor governmental	General	Interfund cash advances	1195269	
	General	Interfund interest on common cash	22,538	
			<u>1,217,807</u>	
Internal Service	General	Interfund interest on common cash	<u>33,739</u>	
Enterprise:	Parking	General	Interfund interest on common cash	896
	Water Utility	General	Interfund interest on common cash	98,301
	Water Utility	Internal Service	Interfund loan	91,867
			<u>191,064</u>	
<b>Total governmental funds</b>			<u><u>\$ 13,101,525</u></u>	

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Transfers between funds for the year ended December 31, 2009 are as follows:

	Transfers in:					Total
	General Fund	Human Services Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	
<b>Transfers out:</b>						
General Fund	\$ -	\$170,000	\$ 933,267	\$ 1,200,000	\$ 81,615	\$ 2,384,882
Library Fund	-	-	249,769	-	-	249,769
Community Development Fund	930,260	12,754	-	-	-	943,014
Capital Projects Fund	-	-	-	-	415,963	415,963
Nonmajor governmental funds	3,818,640	-	4,353,440	2,047,060	1,591,562	11,810,702
Debt Service Fund	-	-	-	-	1,500,000	1,500,000
Total transfer out	<u>\$4,748,900</u>	<u>\$182,754</u>	<u>\$5,536,476</u>	<u>\$ 3,247,060</u>	<u>\$ 3,589,140</u>	<u>\$17,304,330</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenues collected in primarily the General Fund to finance the various programs accounted for in other funds in accordance with budgetary authorizations.

**E. DEFERRED REVENUE**

Deferred revenue as of December 31, 2009 consisted of the following:

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
Property Taxes	\$38,816,230	\$ 6,842,042	\$ -	\$ -	\$ 6,934,410	\$ -	\$ 4,748,932		\$57,341,614
Grants	-	-	716	435,948	-	-	290,553		727,217
Other	-	-	-	-	-	1,931,245		839,916	2,771,161
	<u>\$38,816,230</u>	<u>\$ 6,842,042</u>	<u>\$ 716</u>	<u>\$ 435,948</u>	<u>\$ 6,934,410</u>	<u>\$ 1,931,245</u>	<u>\$ 5,039,485</u>	<u>\$ 839,916</u>	<u>\$60,839,992</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period, if any.

**F. LEASES**

**Operating leases – Governmental funds**

The City leases certain land and buildings to others under operating leases. Some of the agreements require the real estate taxes and other executory costs to be paid by the lessee. Future minimum rentals of the primary government total \$224,700 as of December 31, 2009, and are to be received as follows: 2010 - \$61,020; 2011 - \$61,408; 2012 through 2013 - \$34,293.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**G. LONG-TERM OBLIGATION ACTIVITY**

Long-term obligation activity for the year ended December 31, 2009 was as follows:

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 104,755,000	\$ 21,625,000	\$ (21,645,000)	\$ 104,735,000	\$ 9,015,000
Less deferred amounts:					
For issuance	(465,309)	114,140	50,041	(301,128)	(31,579)
On refunding	(323,792)	(4,034,909)	132,885	(4,225,816)	(50,161)
Total bonds payable	103,965,899	17,704,231	(21,462,074)	100,208,056	8,933,260
Section 108 Guaranteed Loans	1,645,000	-	(90,000)	1,555,000	100,000
EPA Water Pollution Obligation	698,104	-	(98,764)	599,340	101,764
Lines of credit	8,844,578	2,100,498	(2,000,000)	8,945,076	8,445,076
Term notes	-	2,000,000	-	2,000,000	200,000
Claims and judgments	6,292,058	6,126,595	(3,699,335)	8,719,318	5,226,847
Net OPEB obligation	771,191	410,132	-	1,181,323	-
Compensated absences	7,315,125	3,352,124	(4,425,770)	6,241,479	1,021,186
Governmental activities long-term liabilities	\$ 129,531,955	\$ 31,693,580	\$ (31,775,943)	\$ 129,449,592	\$ 24,028,133
<b>Business-type activities:</b>					
Water Utility Fund:					
Bonds payable:					
General obligation alternate bonds	\$ 40,075,000	\$ 4,325,000	\$ (7,210,000)	\$ 37,190,000	\$ 3,080,000
Less deferred amounts:					
For issuance costs	(276,204)	89,345	53,788	(133,071)	(9,483)
For gain (loss) on refunding of: General obligation bonds	(27,263)	(312,181)	17,252	(322,192)	(59,824)
Total water bonds payable	39,771,533	4,102,164	(7,138,960)	36,734,737	3,010,693
Installment Purchase Agreement	25,000,000	-	(11,000,000)	14,000,000	-
IEPA Loan	2,041,100	16,547,414	-	18,588,514	501,172
Compensated absences	362,691	469,006	(412,462)	419,235	60,245
Refundable water main extension advance	573,706	-	(99,549)	474,157	77,829
Customer deposits	240,874	-	(5,893)	234,981	6,000
Total water utility	67,989,904	21,118,584	(18,656,864)	70,451,624	3,655,939
Parking System Fund:					
Bonds payable:					
General obligation alternate bonds	1,850,000	-	-	1,850,000	25,000
Less deferred amounts:					
For issuance costs	(23,284)	-	1,987	(21,297)	(1,987)
Total parking bonds payable	1,826,716	-	1,987	1,828,703	23,013
Compensated absences	42,497	30,525	(31,193)	41,829	12,221
Total parking fund	1,869,213	30,525	(29,206)	1,870,532	35,234
Business-type activities long-term liabilities	\$ 69,859,117	\$ 21,149,109	\$ (18,686,070)	\$ 72,322,156	\$ 3,691,173
<b>Component Units:</b>					
Rockford Mass Transit District					
Net pension obligation	\$ 408,714	\$ 565,626	\$ (600,758)	\$ 373,582	\$ -
Net OPEB obligation	-	413,321	(166,299)	247,022	-
Rockford Metropolitan Exposition, Auditorium and Office Building Authority					
Lines of credit	350,000	1,001,090	(350,000)	1,001,090	1,001,090
Capital lease	165,294	-	(165,294)	-	-
Notes payable	456,000	600,000	-	1,056,000	-
Total component units	\$ 1,380,008	\$ 2,580,037	\$ (1,282,351)	\$ 2,677,694	\$ 1,001,090

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, \$342,521 of internal service funds compensated absences and \$8,719,318 for claims and judgments are included in the above amounts.

For the governmental activities, claims and judgments are generally liquidated by the General Fund. Compensated absences are generally liquidated by the governmental fund where the related employee salaries are recorded, which includes the General Fund, Public Library Fund, Community Development Fund, Human Services Fund, Capital Improvement Fund and other non-major funds. The net pension obligation and pension contributions are liquidated by the General Fund.

**(1) GENERAL OBLIGATION BONDS AND ALTERNATE BONDS**

The City has issued general obligation bonds to provide for community development and the acquisition and construction of major capital projects. General obligation bonds have been issued for both governmental and business-type activities. The beginning balance of outstanding general obligation bonds was \$146,680,000. During the year, new general obligation bonds totaling \$25,950,000 were issued: \$4,300,000 for community development projects, \$21,650,000 to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as serial bonds due in annual installments of various amounts, plus interest. General obligation bonds currently outstanding are as follows:

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

<b>Purpose</b>	<b>Original Issue Amount</b>	<b>Interest Rates</b>	<b>Maturity Date</b>	<b>Amount</b>
<b>Governmental activities</b>				
1997-C Sewer Improvement General Obligation Alternate Bond Issue	\$ 350,000	5.50%	2010	\$ 40,000
2000-A Coronado Theatre Project General Obligation Bond Issue	6,000,000	5.30%	2010	540,000
2000-C Southwest Revitalization Project General Obligation Bond Issue	4,000,000	5.50%	2010	180,000
2000-D Charles Street Improvement Project General Obligation Alternate Bond Issue	3,000,000	5.00%	2010	220,000
2002-A Street Improvement General Obligation Alternate Bond Issue	8,000,000	4.125% - 4.65%	2015	4,410,000
2002-C Charles Street Improvement General Obligation Alternate Bond Issue	3,000,000	4.125% - 4.65%	2015	1,670,000
2002 Taxable General Obligation Alternate Bond Issue	2,500,000	5.00% - 5.40%	2012	1,330,000
2002-D Springfield Corners General Obligation Alternate Bond Issue	1,300,000	4.00% - 5.00%	2021	1,135,000
2003 Street Improvement General Obligation Bond Issue	8,200,000	3.10% - 4.00%	2016	5,170,000
2004-A Street Improvement General Obligation Bond Issue	8,500,000	3.50% - 4.25%	2017	5,870,000
2004-C Equipment General Obligation Alternate Bond Issue	3,200,000	3.25% - 4.00%	2014	1,850,000
2004-D Seventh Street Revitalization General Obligation Alternate Bond Issue	2,000,000	5.00% - 5.25%	2016	1,400,000
2004-E Capital Improvements General Obligation Alternate Bond Issue	4,650,000	3.50% - 4.50%	2023	4,450,000
2005-A Capital Improvements General Obligation Alternate Bond Issue	8,700,000	3.50% - 4.10%	2018	6,760,000
2005-C Global Trade Park General Obligation Alternate Bond Issue	915,000	4.00%	2015	715,000
2005-C Neighborhood Revitalization General Obligation Alternate Bond Issue	6,305,000	4.00% - 4.40%	2024	6,305,000
2005-D Lowes Distribution Center Taxable General Obligation Bond Issue	2,850,000	5.00% - 5.12%	2018	2,300,000
2006-B Hope Six Revitalization Project General Obligation Alternate Bond Issue	2,500,000	4.15% - 4.15%	2024	2,500,000
2007-A Metro Centre Improvement General Obligation Alternate Bond Issue	6,300,000	4.00% - 4.20%	2027	5,870,000
2007-B Metro Centre Improvement Taxable General Obligation Bond Issue	16,700,000	5.125% - 5.40%	2027	12,645,000
2007-E Preston Central Redevelopment General Obligation Alternate Bond Issue	1,100,000	4.25% - 4.85%	2027	1,075,000
2007-F Sewer Improvement General Obligation Alternate Bond Issue	1,100,000	4.00% - 4.25%	2017	1,100,000
2007-G Library Construction General Obligation Alternate Bond Issue	3,050,000	4.10% - 4.75%	2027	2,850,000
2008-B Redevelopment General Obligation Alternate Bond Issue	1,300,000	3.00% - 4.00%	2018	1,300,000
2009-A Redevelopment General Obligation Alternate Bond Issue	1,650,000	4.625% - 5.00%	2029	1,650,000
2009-B Redevelopment Taxable General Obligation Alternate Bon	950,000	5.30% - 5.70%	2024	950,000
2009-D Taxable Refunding General Obligation Bond Issue	1,700,000	2.25% - 5.50%	2024	1,700,000
				<u>75,985,000</u>

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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<b>Governmental activities - refunding</b>				
2004-F Refunding General Obligation Alternate Bond Issue	4,375,000	3.30% - 3.35%	2011	1,555,000
2004-H Refunding General Obligation Bond Issue	3,070,000	3.50% - 4.25%	2020	2,925,000
2005-C Refunding General Obligation Alternate Bond Issue	530,000	4.00% - 4.40%	2018	530,000
2007-C Refunding General Obligation Bond Issue	6,865,000	3.75% - 3.75%	2018	6,415,000
2009-C Taxable Refunding General Obligation Bond Issue	8,065,000	5.125% - 5.40%	2027	8,065,000
2009-E Refunding General Obligation Bond Issue	7,930,000	2.00% - 3.00%	2014	7,930,000
2009-G Refunding General Obligation Alternate Bond Issue	1,330,000	2.00% - 3.00%	2015	1,330,000
				<u>28,750,000</u>
				<u>\$ 104,735,000</u>

In connection with the Water General Obligation Alternate Bonds, the City passed ordinances authorizing the issuance of the bonds. Among other things, these ordinances stipulate that revenue from the water utility system will be applied in the following order:

1. To pay operation and maintenance costs.
2. To pay a fractional amount of the interest and principal payments becoming due on the next payment date.
3. To provide an amount of cash and investments sufficient to pay the maximum annual debt service of the alternate bonds.
4. To provide an allowance for depreciation, or if not needed, may be used to pay for any extraordinary maintenance, repairs and replacements or for improvements or extensions of the water system. Amounts in excess of the amount determined by the City Council as necessary for the depreciation allowance may, at its discretion, be transferred to the surplus account.
5. To make up any deficiencies in any required credit payment or deposit pursuant to the above requirements.
6. For the purpose of paying principal and interest on subordinate debt or obligation issued for the purpose of acquiring or constructing repairs, replacement or improvements or extensions to the water system. Remaining amounts in the surplus account shall be used for any one or more of the following:
  - For the purpose of constructing or acquiring repairs, replacement or improvements to the water system.
  - For the purpose of calling and redeeming any callable outstanding revenue bonds.
  - For the purpose of purchasing outstanding revenue bonds at a price not greater than par plus accrued interest.
  - For any other lawful corporate purpose.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

General obligation alternate bonds currently outstanding are as follows:

<b>Purpose</b>	<b>Original Issue Amount</b>	<b>Interest Rates</b>	<b>Maturity Date</b>	<b>Amount</b>
<b>Business-type activities</b>				
Water Utility Fund:				
2000-B General Obligation Alternate Bond Issue	2,200,000	5.375%	2010	200,000
2002-B General Obligation Alternate Bond Issue	2,220,000	4.125% - 4.65%	2015	1,225,000
2003-B General Obligation Alternate Bond Issue	2,200,000	3.10% - 4.00%	2016	1,400,000
2004-B General Obligation Alternate Bond Issue	2,200,000	3.50% - 4.25%	2017	1,565,000
2005-B General Obligation Alternate Bond Issue	2,200,000	3.65% - 4.10%	2018	1,720,000
2006-A General Obligation Alternate Bond Issue	15,000,000	4.15% - 4.15%	2018	13,875,000
2007-D General Obligation Alternate Bond Issue	3,500,000	4.125% - 4.75%	2027	3,275,000
2008-A General Obligation Alternate Bond Issue	9,000,000	3.25% - 5.00%	2028	<u>8,900,000</u>
				<u>32,160,000</u>
Parking System Fund:				
2008-A General Obligation Alternate	1,850,000	4.75% - 6.00%	2028	<u>1,850,000</u>
<b>Business-type activities - refunding</b>				
Water Utility Fund:				
2004-G Refunding General Obligation Alternate Bond Issue	2,475,000	2.90% - 3.35%	2011	705,000
2009-F Refunding General Obligation Alternate Bond Issue	4,325,000	2.00% - 3.50%	2018	<u>4,325,000</u>
				<u>5,030,000</u>
				<u>\$ 39,040,000</u>

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ending December 31</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	9,015,000	3,796,167	3,105,000	1,605,824
2011	9,015,000	3,479,650	2,915,000	1,502,478
2012	8,885,000	3,169,515	2,810,000	1,408,374
2013	8,305,000	2,843,325	2,685,000	1,311,488
2014	8,280,000	2,521,775	2,530,000	1,211,894
2015	8,580,000	2,859,704	2,415,000	1,110,786
2016	7,440,000	2,495,801	2,320,000	1,010,435
2017	6,835,000	2,182,945	2,145,000	914,386
2018	6,310,000	1,890,770	1,990,000	824,605
2019	3,935,000	1,614,172	1,600,000	740,687
2020	3,760,000	1,429,973	1,650,000	670,962
2021	3,340,000	1,250,716	1,675,000	598,194
2022	3,635,000	1,086,435	1,775,000	523,356
2023	3,920,000	904,334	1,825,000	442,844
2024	3,705,000	707,209	1,875,000	359,456
2025	3,025,000	517,951	1,975,000	273,431
2026	3,165,000	358,605	2,025,000	182,187
2027	3,335,000	191,540	975,000	87,188
2028	125,000	15,200	750,000	39,000
2029	125,000	7,600	-	-
<b>Total</b>	<b>\$ 104,735,000</b>	<b>\$ 33,323,387</b>	<b>\$ 39,040,000</b>	<b>\$ 14,817,575</b>

**(2) OTHER OBLIGATIONS**

**a) SECTION 108 GUARANTEED LOANS**

During 2003, the City's Community Development Department entered in a contract with the Secretary of Housing and Urban Development (HUD) under the Section 108 Guaranteed Loans Program. The outstanding balance at December 31, 2009 is \$790,000 due in various annual amounts not exceeding \$75,000 through 2023; interest at 1.410% to 5.890%. The proceeds were then loaned to a secondary authorized representative under the guidelines of the City and HUD contract, for acquisition of equipment for Gray's IGA Grocery Store. During 2005, the City's Community Development Department entered into a contract with the Secretary of Housing and Urban Development (HUD) under the Section 108 Guaranteed Loans Program. The outstanding balance at December 31, 2009 is \$765,000 due in annual amounts not exceeding \$130,000 through 2016; interest at 5.06% to 5.11%. The proceeds were then loaned to a secondary authorized representative under the guidelines of the City and HUD contract, for the purchase of a local manufacturer by an outside company to aid in the retention and creation of new jobs with the purchase.

**b) EPA WATER POLLUTION OBLIGATION**

During 1990, the City entered into a Funding Agreement with Rock River Water Reclamation District and the Illinois Environmental Protection Agency to construct an interceptor, described as the Kishwaukee Trunk Sewer Extension. The sewer extension obligation payable at December 31, 2009 is \$599,340 due in various bi-annual amounts not exceeding \$115,000 through 2015; interest at 3.015%.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

Annual debt service requirements to maturity for other obligations are as follows:

Year Ending December 31	Governmental Activities			
	Section 108 Guaranteed Loans		EPA Water Pollution Obligation	
	Principal	Interest	Principal	Interest
2010	100,000	79,858	101,764	17,309
2011	100,000	75,203	104,855	14,217
2012	170,000	70,416	108,041	11,032
2013	180,000	62,012	111,324	7,750
2014	180,000	53,033	114,704	4,369
2015	190,000	43,976	58,652	884
2016	185,000	34,317	-	-
2017	60,000	24,816	-	-
2018	60,000	21,642	-	-
2019	60,000	18,414	-	-
2020	75,000	15,138	-	-
2021	75,000	10,990	-	-
2022	60,000	6,798	-	-
2023	60,000	3,414	-	-
	<u>\$ 1,555,000</u>	<u>\$ 520,027</u>	<u>\$ 599,340</u>	<u>\$ 55,561</u>

**c) LINES OF CREDIT**

In November of 2007, the City entered into an agreement with the Rockford Local Development Corporation (RLDC) an Illinois not-for-profit corporation. Under terms of the agreement, RLDC shall secure a \$10,000,000 line of credit to be used for the voluntary acquisition of approximately 80 homes and two commercial properties that are located within the Keith Creek floodplain. The loan will fund the acquisition costs for each parcel, demolition expense, costs of all activities related to the project, and an interest reserve to cover carrying costs. The City shall provide guarantee of the loan and purchase the properties from RLDC at the price RLDC acquired them, and reimburse RLDC for expenses incurred in the performance of its duties. At December 31, 2009, there were outstanding borrowings of \$8,445,076 under this agreement.

In December of 2009 the City entered into an agreement with PNC Bank to establish a \$15.5 million line of credit. The line of credit will provide cash flow until property tax revenues are received in June of 2010. Interest will be paid monthly at a rate per annum equal to the daily LIBOR rate plus 1.4%. The Loan Account terminates and the Note shall be due and payable on December 23<sup>rd</sup> 2011. At December 31, 2009, there were outstanding borrowings of \$500,000 under this agreement.

**d) INSTALLMENT PURCHASE AGREEMENT**

In July of 2009 the City entered into an Installment Purchase Agreement for the purpose of paying a part of the cost of construction of improvements to the existing waterworks system, authorizing and providing for the issue of \$25,000,000 General Obligation Limited Tax Debt Certificates. Terms of the agreement are balance due on June 15, 2013 interest is calculated as 65% of the three month LIBOR plus 1.2443%. The City redeemed the first \$11,000,000 on June 15, 2009.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**e) PROMISSORY TERM NOTE**

In December of 2010 the City issued a \$2,000,000 Taxable Promissory Note, Series 2009B for the purpose of paying ordinary and necessary expenses of the Rockford Metropolitan Exposition, Auditorium and Office Building Authority. Terms of the Note are; ten years with monthly principal payment of \$16,667, and interest at a rate per annum of the monthly LIBOR rate plus 2%.

**f) ILLINOIS ENVIRONMENTAL PROTECTION AGENCY (IEPA) LOAN**

The City has been approved for approximately \$23,000,000 in the form of a 2.5% public water supply loan from the IEPA. The outstanding balance at December 31, 2008 is \$18,588,514. Repayment terms have not been finalized but are expected to be payable over a twenty year period with the first payment scheduled six months after the construction project is complete. The city has recorded the debt outstanding in the Water Utility Fund and will repay the debt with water revenues.

**g) COMPENSATED ABSENCES**

Governmental activities:

Vested vacation pay of \$4,195,733 and vested sick pay of \$2,045,746 for employees paid from governmental funds are included in the Government-wide Statement of Net Assets.

**(3) REFUNDING OF DEBT**

On August 31<sup>st</sup> 2009, \$8,065,000 in Taxable General Obligation Refunding Bonds, Series 2009C were issued to advance refund a portion of Series 2007B. Proceeds of the sale were placed in an irrevocable escrow account that is to be used to service the debt requirements until December 15<sup>th</sup> of 2015. The reacquisition price exceeded the net carrying amount of the old debt by \$4,399,317. The transaction resulted in an economic loss of \$1,182,905 and an increase of \$6,757,888 in future debt service payments.

On December 3<sup>rd</sup> 2009, the City issued General Obligation Refunding Bonds, \$7,930,000, Series 2009E; \$4,325,000, Series 2009F; and \$1,330,000 Series 2009G to advance refund the following series:

1999-A	Capital Improvement GOB	\$ 2,040,000
1999-A	Refunding GOB	650,000
2000-A	Coronado Theater Project GOB	1,830,000
2001-A	Capital Improvement GOB	3,360,000
1999-B	Water Utility GOB - Alternate revenue	2,535,000
2000-B	Water Utility GOB - Alternate revenue	655,000
2001-B	Water Utility GOB - Alternate revenue	1,115,000
2000-D	Charles Street Improvements GOB	1,280,000
		\$ 13,465,000

Proceeds from the sale were placed in an irrevocable escrow account that is to be used to service future debt requirements of the old debt. The reacquisition price exceeded the net carrying amount of the old debt by \$120,000. Of this amount, approximately \$20,000 relates to the Water Utility Fund and \$100,000 relates to the Debt Service Fund. The transaction resulted in an economic gain of \$714,460 and a decrease of \$755,728 in future debt service payments.

The savings (costs) resulting from both refunding bond sales was as follows:

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

	Governmental Activities	Business-type Activities	Total
Cash flow requirements to service (old) debt	\$36,862,134	\$ 5,285,034	\$ 42,147,168
Less: Cash flow requirements for new debt	43,144,212	5,005,116	48,149,328
Net savings from refunding	<u>\$(6,282,078)</u>	<u>\$ 279,918</u>	<u>\$(6,002,160)</u>
Present value of net savings			<u>\$ (468,445)</u>

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new general obligation bonds in escrow accounts to provide for all future debt service payments on the old debt. The total amount of defeased debt at December 31, 2009 is \$19,245,000, of this amount \$14,940,000 relates to the debt service fund and \$4,305,000 relates to the Water Utility. Funds in escrow accounts are excluded from the City's financial statements.

**(4) LEGAL DEBT LIMITATION**

The State imposes a legal limit of 8.625% of the total equalized assessed valuation on the amount of general bond indebtedness. The City of Rockford further limits its indebtedness, by ordinance, to 80.0% of the State limit. As of December 31, 2009, the City indebtedness was \$79,978,177 less than the City limit and \$115,906,471 less than the State limit.

**(5) COMPONENT UNITS**

**a) LINES OF CREDIT**

Lines of credit: At June 30, 2009, the Authority has a \$1,200,000 line of credit which carries an interest rate at the LIBOR rate plus 3% not lower than 5.5 %. The Authority's bank deposits and any other property in possession, custody, or control of the bank serve as collateral for this line of credit. The amount of outstanding borrowings under this agreement was \$1,001,090 as of June 30, 2009. In connection with this line of credit, the Authority is required to abide by certain financial and reporting covenants.

**b) NOTES PAYABLE**

On November 13, 2007 the Rockford City Council approved a \$456,000 no-interest, 15 years, loan to the Authority, for operations. In 2009 the repayment terms were amended to begin on January 1, 2013 for principal of \$30,000 each year. In 2009 the City also extended a \$600,000 loan to the Authority and in the Intergovernmental Agreement dated July 20, 2009 the Authority agreed to begin \$30,000 quarterly repayments of that loan, beginning January 1, 2013. In the City's statements these notes receivable are completely offset by an allowance for doubtful accounts.

**c) CAPITAL LEASE**

During 2004, the Authority entered into a six-year capital lease agreement to lease a new ticketing system for \$776,074. The Authority will make payments of \$250,000 each year, which includes \$100,748 for annual software, hardware and website maintenance, hosting services, access subscription and other professional services. The ticketing system will be depreciated on a straight-line basis over five year. Accumulated depreciation of the ticketing system was \$776,074 as of June 30, 2009. This lease expired early on August 1, 2008, as the Authority renegotiated services provided. In 2009 the Authority made one month's payment of \$20,833 on the capital lease before it expired. A gain upon early retirement of debt of \$ 153,442 was equivalent to the remaining principal at the expiration of the capital lease.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**IV. OTHER INFORMATION**

**A. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City issued and has an estimated \$19,725,599 in outstanding industrial development revenue bonds. Proceeds from these issues were used to finance in whole or in part the cost of the acquisition or improvement of economic development projects. Debt service on these issues is paid solely from the revenue and receipts derived from the economic development projects. The bonds are not a liability, nor is the resulting property an asset of the City and accordingly, neither are reflected in the City's financial statements.

**B. CONTINGENT LIABILITIES**

**Grantor Agencies**

Federal and state grants-in-aid received by the City are subject to audit and adjustment by grantor agencies. If grant revenues are received for expenditures which are subsequently disallowed, the City may be required to repay the revenues. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material.

**C. RISK MANAGEMENT**

**1. Claims and Judgments**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The City is self-insured for general and auto liability damages. The City has purchased commercial insurance coverage for catastrophic losses to buildings and contents totaling \$43.5 million. The City has also obtained commercial liability insurance for certain programs supported by State and Federal grant programs.

The insurance coverage is consistent with the prior year and the amounts of settlements during the past three years have not exceeded this coverage.

The revenue and expenses relating to the City's claims and judgments, other than health care and workers' compensation, are recorded in the Risk Management Internal Service Fund. The charges to the individual funds are based on specific identification. The Risk Management Fund records expenses for claims, insurance coverage and administrative fees.

A liability for a claim has been recorded in the Risk Management Internal Service Fund if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimated. This liability is the City's best estimate based on available information. The estimate of the claims liability also includes amounts, if any, for incremental claims adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

The following represents changes in unpaid claims and judgments for the past two years:

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

	2009	2008
Unpaid claims at beginning of year	\$1,152,541	\$ 1,504,012
Current year claims and change in estimates	1,861,085	104,642
Claim payments	<u>(673,997)</u>	<u>(456,113)</u>
Unpaid claims at end of year	<u>\$2,339,629</u>	<u>\$ 1,152,541</u>
Reported as:		
Claims and judgments payable	\$2,253,977	\$ 1,092,831
Accounts payable	<u>85,652</u>	<u>59,710</u>
	<u>\$2,339,629</u>	<u>\$ 1,152,541</u>

Included in the \$2,339,629 are claims of \$1,175,000, representing losses for which the lowest amount in a range of probable losses has been accrued because no amount within that range is a better estimate of loss. The City estimates that those losses could be as high as \$10,598,000. Approved claims which have been presented for reimbursement as of year end totaling \$85,652 are reported as accounts payable.

**2. Health Care Coverage**

The City is self-insured for its group health and dental insurance coverage. The plan provides a lifetime coverage maximum of \$1,500,000 per participant. Excess coverage has been purchased up to the lifetime maximum with a \$200,000 annual retention per participant. The plan is administered by a third-party administrator. As the claim cycle has various stages, there may be situations where loss contingencies have occurred before the balance sheet date; but the claims have not been asserted. These potential unasserted claims and existing claims, if the amounts can be reasonably estimated and it is probable that the claims will be asserted, have been recorded as a liability of the Health Insurance Internal Service Fund. This liability is the City's best estimate based on available information.

Premiums are charged to each department based on the number of single and family contracts in the respective departments. Expenses for medical claims, stop-loss insurance and administrative fees are recorded in the Health Insurance Internal Service Fund. The stop-loss insurance coverage is consistent with the prior year and the amounts of claim settlements during the past three years have not exceeded this coverage.

The following represents changes in unpaid health care claims for the past two years:

	2009	2008
Unpaid claims at beginning of year	\$ 2,036,479	\$ 2,055,694
Current year claims and change in estimates	18,105,921	18,192,022
Claim payments	<u>(17,127,406)</u>	<u>(18,211,237)</u>
Unpaid claims at end of year	<u>\$ 3,014,994</u>	<u>\$ 2,036,479</u>
Reported as:		
Claims and judgments payable	\$ 2,896,000	\$ 1,907,453
Accounts payable	<u>118,994</u>	<u>129,026</u>
	<u>\$ 3,014,994</u>	<u>\$ 2,036,479</u>

**3. Workmen's Compensation**

The City is self-insured for its workmen's compensation coverage up to \$500,000 per occurrence and for the amount, if any, in excess of \$1,000,000. The City utilizes a third-party administrator to administer the plan.

The insurance coverage is consistent with the prior year and the amounts of settlements during the past three years have not exceeded this coverage.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

The revenue and expenses relating to workmen's compensation are recorded in the Workmen's Compensation Internal Service Fund. The charges to the individual funds are based on the wages and job classifications of the employees in the respective funds. The Workmen's Compensation Internal Service Fund records expenses for claims, stop-loss insurance coverage and administrative fees.

A liability for a claim has been recorded in the Workmen's Compensation Internal Service Fund if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. This liability is the City's best estimate based on available information.

The following represents changes in unpaid workmen's compensation claims for the past two years:

	2009	2008
Unpaid claims at beginning of year	\$3,464,344	\$ 3,458,398
Current year claims and change in estimates	2,113,135	2,169,465
Claim payments	<u>(2,008,138)</u>	<u>(2,163,519)</u>
Unpaid claims at end of year	<u>\$3,569,341</u>	<u>\$ 3,464,344</u>
Reported as:		
Claims and judgments payable	\$3,569,341	\$ 3,291,775
Accounts payable	-	172,569
	<u>\$3,569,341</u>	<u>\$ 3,464,344</u>

**D. EMPLOYEE RETIREMENT SYSTEMS AND PENSIONS PLANS**

**Pension plans – primary government**

The City of Rockford General, Water and Parking employees are covered by a State agent multiple-employer defined benefit public retirement system (Illinois Municipal Retirement Fund) that acts as a common investment and administrative agent for local governments. Police and Fire sworn employees are covered by defined benefit single-employer pension plans and are governed by Illinois State Statutes (Chapter 40 Article 3).

**1. Illinois Municipal Retirement Fund (IMRF)**

**Plan description.** The City of Rockford participates in the Illinois Municipal Retirement Fund (IMRF), agent multiple-employer, defined benefit pension plan administered by the State for local governments and school districts in Illinois. IMRF provides retirement, disability, annual cost of living adjustments and death benefits to plan members and their beneficiaries. Participating members who retire at or after age 60 with 8 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter. The State is authorized by statute to establish and amend all plan provisions. IMRF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at [www.imrf.org/pubs/pubs\\_homepage.htm](http://www.imrf.org/pubs/pubs_homepage.htm) or by writing to IMRF, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

**Funding policy.** The contribution requirements of the plan members are established by State statute. Plan members are required to contribute 4.5% of their annual salary. The statutes require the City to contribute at an actuarially determined rate, the amount necessary, in addition to member contributions, to finance retirement coverage of its own employees. The employer rate for calendar year 2009 was 9.35% of covered payroll. The employer 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.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

**Annual pension cost.** For December 31, 2009, the City's annual pension cost of \$3,101,178 was equal to the City's required and actual contributions.

Three-Year Trend Information for IMRF:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	\$ 3,101,178	100.0	\$ -
12/31/2008	3,024,393	100.0	-
12/31/2007	2,927,951	100.0	-

The required contribution for 2009 was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2007 included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the City's 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 15% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at the December 31, 2007, valuation was 23 years.

**Funded Status and Funding Progress.** As of December 31, 2009, the most recent actuarial valuation date, the City's plan was 72.17 percent funded. The actuarial accrued liability for benefits was \$99,279,370 and the actuarial value of assets was \$71,652,490, resulting in an underfunded actuarial accrued liability (UAAL) of \$27,626,880. The covered payroll (annual payroll of active employees covered by the plan) was \$33,167,684 and the ratio of the UAAL to the covered payroll was 83 percent. In conjunction with the December 2009 actuarial valuation the market value of investments was determined using techniques that spread the effect 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. In 2010, the unfunded actuarial liability is being amortized on a level percentage of projected payroll on an open 30 year basis.

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

**2. Police Pension Fund (PPF)**

**Plan description.** The City of Rockford administers the PPF, a single-employer defined benefit pension plan in which all sworn police employees of the City participate. PPF provides retirement, disability, and death benefits to plan members and their beneficiaries. Employees attaining the age 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefits of 2.5% of final salary for each year of service up to 30 years, to a maximum of 75% of such 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 benefit of 2.50% of final salary for each year of service. The PPF issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained at the City's Finance Office.

**Summary of significant accounting policies – basis of accounting and valuation of investments.** The financial statements of PPF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Administrative costs are financed primarily through investment earnings.

**Funding policy.** The defined benefits and employee contribution levels are governed by Illinois State Statutes (Chapter 40 Article 3) and may be amended only by the Illinois legislature. Plan members are required to contribute 9.91% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 17.65% of covered payroll.

**Annual pension cost.** For 2009, the City of Rockford's annual pension cost was \$3,595,225. The City's actual contribution was \$3,485,091. The net pension asset at December 31, 2009 was \$469,782. It was comprised of the following:

Police Pension

Annual Required Contribution (ARC)	\$ 3,608,547
Interest on the Net Pension Asset	(43,494)
Adjustment to the ARC	<u>30,172</u>
Annual pension cost	3,595,225
Contribution	<u>3,485,091</u>
Increase in Pension Asset (Liability)	(110,134)
Net pension Asset at January 1, 2009	<u>579,916</u>
Net pension Asset at December 31, 2009	<u><u>469,782</u></u>

The required contributions were determined as part of the January 1, 2009 actuarial valuation using the entry normal age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases due to inflation of 5.0% per year, and (c) projected salary increases due to seniority/merit raises of 3.0% per year. The actuarial value of assets is determined by market method. The PPF unfunded liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 24 years.

**Funded Status and Funding Progress.** As of December 31, 2008, the most recent actuarial valuation date, the PPF plan was 66.10 percent funded. The actuarial accrued liability for benefits was \$208,039,571 and the actuarial value of assets was \$137,508,810, resulting in an underfunded actuarial accrued liability (UAAL) of \$70,530,761. The covered payroll (annual payroll of active employees covered by the plan) was \$19,744,695 and the ratio of the UAAL to the covered payroll was 357 percent.

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

**Reserves and concentration of investments.** There are no assets legally reserved for purposes other than the payment of Plan member benefits. There are no long-term contracts for contributions. See Note III A for concentration of investments.

**Three-year trend information:**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)*
12/31/2009	\$ 3,595,225	96.9	\$ (469,782)
12/31/2008	3,314,371	97.8	(579,916)
12/31/2007	2,780,993	91.5	(652,719)

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

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**3. Firefighter's Pension Fund (FPF)**

**Plan description.** The City of Rockford administers the FPF, a single-employer defined benefit pension plan in which all sworn fire employees of the City participate. FPF provides retirement, disability, and death benefits to plan members and their beneficiaries. 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 salary attached to the rank held on the last day of service. The pension shall be increased by ½ of 2.5% of such monthly salary for each additional year of service over 20 years up to 30 years, 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 benefit ranging from 15% of final salary for 10 years of service to 45.6% for 19 years of service. The FPF issues a publicly available report that includes the applicable financial statements and required supplementary information. The report may be obtained at the City's Finance Office.

**Summary of significant accounting policies – basis of accounting and valuation of investments.** The financial statements of the FPF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Administrative costs are financed primarily through investment earnings.

**Funding policy.** The defined benefits and employee contribution levels are governed by Illinois State Statutes (Chapter 40 Article 3) and may be amended only by the Illinois legislature. Plan members are required to contribute 9.455% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 27.14% of covered payroll.

**Annual pension cost.** For 2008, the City of Rockford's annual pension cost was \$5,086,621. The City's actual contribution was \$4,927,123. The pension asset at December 31, 2009 was \$130,182. It was comprised of the following:

Annual Required Contribution (ARC)	\$ 5,086,621
Interest on the Net Pension Asset	(21,238)
Adjustment to the ARC	<u>14,733</u>
Annual pension cost	5,080,116
Contribution	<u>4,927,123</u>
Increase in Pension Asset (Liability)	(152,993)
Net pension Asset at January 1, 2009	<u>283,175</u>
Net pension Asset at December 31, 2009	<u><u>130,182</u></u>

**Funded Status and Funding Progress.** As of December 31, 2008, the most recent actuarial valuation date, the FPF plan was 61.70 percent funded. The actuarial accrued liability for benefits was \$206,921,554 and the actuarial value of assets was \$127,654,609, resulting in an underfunded actuarial accrued liability (UAAL) of \$79,266,945. The covered payroll (annual payroll of active employees covered by the plan) was \$18,157,179 and the ratio of the UAAL to the covered payroll was 437 percent.

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

**Reserve and concentration of investments.** There are no assets legally reserved for purposes other than the payment of Plan member benefits. There are no long-term contracts for contributions. See Note III A for concentration of investments.

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

The required contributions were determined as part of the January 1, 2009 actuarial valuation using the entry normal age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases due to inflation of 3.0% per year, and (c) projected salary increases due to seniority/merit raises of 5.0% per year. The actuarial value of assets is determined by market method. The FPF unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 24 years.

**Three-year trend information:**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)*
12/31/2009	\$ 5,080,116	97.0	\$ (130,182)
12/31/2008	4,753,183	98.0	(283,175)
12/31/2007	4,126,824	92.9	(379,930)

**4. Other Post-Employment Benefits**

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

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

**Membership.** At December 31, 2009, membership consisted of:

Retirees and beneficiaries currently receiving benefits	151
Terminated employees entitled to benefits but not yet receiving benefits	-
Active vested plan members	721
Active nonvested plan members	434
Total	1,306
Number of participating employers	1

**Funding policy.** For the fiscal year ending December 31, 2009, retirees contributed approximately \$222,144. The City is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future. Active employees do not contribute to the plan until retirement.

**Annual OPEB Cost and Net OPEB Obligation.** The City's annual other post-employment benefits (OPEB) cost (expense) for the fiscal year ended December 31, 2009, is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The City's annual OPEB cost of \$632,276 was equal to the ARC for the fiscal year, as the transition liability was set at

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

zero as of December 31, 2006. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 was as follows (information for the two preceding years is not available as an actuarial valuation was performed for the first time):

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	625,553	-	35.5%	771,191
December 31, 2007	589,926	-	37.7%	367,782

The net OPEB obligation as of December 31, 2009, was calculated as follows:

Interest on Net OPEB Obligation	38,560
Adjustment to Annual Required Contribution	(25,706)
Annual OPEB Cost	632,276
Contributions Made	<u>222,144</u>
Increase (Decrease) in Net OPEB Obligation	410,132
Net OPEB Obligation Beginning of Year	<u>771,191</u>
Net OPEB Obligation End of Year	<u><u>1,181,323</u></u>

**Funded Status and Funding in Process.** The funded status of the plan as of December 31, 2009, was as follows:

Unfunded actuarial accrued liability (UAAL)	14,941,274
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	70,288,041
UAAL as a percentage of covered payroll	21.26%

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

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

**CITY OF ROCKFORD, ILLINOIS**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**

In the January 1, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return and an initial healthcare cost trend rate of 8.0% with an ultimate healthcare inflation rate of 6.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009, was twenty eight years.

**Individual Plan Financial Statements:**

**Statements of Fiduciary Net Assets – Pension Trust Funds**  
**December 31, 2009**

	<b>Pension Trust Funds</b>		
	<b>Police Pension</b>	<b>Firefighter's Pension</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 662,451	\$ 2,926,247	\$ 3,588,698
Investments			
U.S. Treasury Strips	-	7,571,157	7,571,157
U.S. Treasury Notes	-	14,512,047	14,512,047
U.S. Treasury Bonds	-	5,934,093	5,934,093
Government National Mortgage Association	-	10,616,500	10,616,500
Government Backed Corporate Bonds	-	2,801,112	2,801,112
Federal Home Loan Bank Bonds	-	4,043,438	4,043,438
Federal Home Loan Mortgage Corporation	-	9,428,493	9,428,493
Federal National Mortgage Association	-	14,787,987	14,787,987
Federal Farm Credit Bonds	-	2,573,942	2,573,942
State and Local Government Securities	-	274,618	274,618
Small Cap Equity Common Stocks	14,614,434	9,226,193	23,840,627
Mid Cap Equity Common Stocks	6,895,327	-	6,895,327
Large Cap Equity Common Stocks	-	20,129,694	20,129,694
NTGI Collective Trust	64,685,929	-	64,685,929
ABN AMRO Stable Value Funds	16,817,681	-	16,817,681
Domestic Mutual Funds	28,679,090	10,962,846	39,641,936
International Mutual Funds	14,678,230	17,101,310	31,779,540
Accrued interest receivable	42,821	540,353	583,174
Contributions receivable	2,754,532	4,460,248	7,214,780
Total assets	149,830,495	137,890,278	287,720,773
<b>LIABILITIES</b>			
Accrued liabilities	73,332	72,159	145,491
<b>NET ASSETS</b>			
Held in trust for pension benefits	<u>\$ 149,757,163</u>	<u>\$ 137,818,119</u>	<u>\$ 287,575,282</u>