

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

ANNUAL FINANCIAL REPORT

For the Year Ended
April 30, 2016



ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Rochelle Municipal Utilities (enterprise funds of the City of Rochelle, Illinois) (RMU) as of and for the year ended April 30, 2016, and the related notes to financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to RMU's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RMU's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rochelle Municipal Utilities (enterprise funds of the City of Rochelle, Illinois), as of April 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 11 to the financial statements, the City of Rochelle, Illinois (the City) adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which established standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses; and modified certain disclosures in the notes to financial statements and the required supplementary information. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the funds comprising RMU and do not purport to, and do not present fairly the financial position of the City as of April 30, 2016, the respective changes in financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City's basic financial statements for the year ended April 30, 2015, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The supplemental information for the year ended April 30, 2016, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 supplemental information is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Sikich LLP

Naperville, Illinois
September 19, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

Management of the City of Rochelle's Department of Utilities, Rochelle Municipal Utilities (RMU) offers all persons interested in the financial position of RMU this narrative overview and analysis of the utilities' financial performance during the fiscal years ending April 30, 2016, 2015 and 2014. You are invited to read this narrative in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Electric Utility exceed its liabilities and deferred inflows of resources by \$42,807,526. Of this amount, \$10,136,305 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors; \$7,529,152 is restricted for debt service (restricted net position); and \$25,142,069 is the net investment in capital assets.
- The assets and deferred outflows of resources of the Water and Water Reclamation Utility exceed its liabilities and deferred inflows of resources by \$37,896,391. Of this amount, \$5,001,642 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors; \$877,511 is restricted for debt service (restricted net position); and \$32,017,238 is the net investment in capital assets.
- The liabilities and deferred inflows of resources of the Communication Utility exceed its assets and deferred outflows of resources by \$295,878. Of this amount, \$(1,125,720) (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$829,842 is the net investment in capital assets.
- The assets and deferred outflows of resources of the Technology Center Utility exceed its liabilities and deferred inflows of resources by \$764,222. Of this amount (\$360,866) (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$1,125,088 is the net investment in capital assets.
- Operating revenues for the Electric Utility were up 11% while operating expenses were up 2%. Operating revenue increases came from new industrial customers and an added revenue streams. Operating expenses increased slightly while purchased power costs remained stable.
- Operating revenues for the Water and Water Reclamation Utility were down 9% while operating expenses were up 1%. Operating revenues decreased due to a leak at a Water Reclamation industrial customer's site that has since been corrected.
- Operating revenues for the Communication Utility decreased 7% due to the reduction in rates for fiber customers and a lower network administration charge to the internal departments. Operating expenses decreased 11% due to an allocation of personnel expenses and a reduction of contractual services.

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

The purpose of this discussion and analysis is an introduction to RMU's basic financial statements. Enclosed are two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The basic statements that follow this analysis provide individual fund statements that demonstrate the financial strength of the utility.

- For each of the reporting funds provided there will be a Statement of Net Position (Balance Sheet); next the Statement of Revenues, Expenses and Changes in Net Position, followed by a Statement of Cash Flows.
- The remaining notes provide detailed information about the methods of asset and liability valuations and other supplemental information critical to a proper analysis of the financial statements.

STATEMENTS

The utility-wide statements report information about RMU as a whole using accounting methods similar to those used by private-sector utilities. The Balance Sheet includes all of the utilities' assets and deferred outflows of resources and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

The utility-wide statements report RMU's net position and how they have changed. Net Position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure financial health, or position. Over time, increases or decreases in RMU's net position are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of RMU, it is necessary to review and consider non-financial factors as well, such as changes in utility rates and the condition of utility plant in service.

The Statement of Revenues, Expenses and Changes in Net Position presents information demonstrating how the net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the utility-wide financial statements.

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU

A summary of RMU's Statement of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	Electric Utility		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets/Deferred Outflows of Resources	\$ 24,677,546	\$ 27,346,075	\$ 25,285,240
Capital Assets	<u>41,782,805</u>	<u>36,676,896</u>	<u>33,480,542</u>
Total Assets and Deferred Outflows	<u>66,460,351</u>	<u>64,022,971</u>	<u>58,765,782</u>
Long-term Liabilities	17,982,958	17,049,767	10,779,879
Other Liabilities	<u>5,669,867</u>	<u>4,024,042</u>	<u>3,720,105</u>
Total Liabilities and Deferred Inflows	<u>23,652,825</u>	<u>21,273,809</u>	<u>14,499,984</u>
Net Investment in Capital Assets	25,142,069	19,367,724	22,247,002
Restricted	7,529,152	10,904,642	8,756,557
Unrestricted	<u>10,136,305</u>	<u>12,476,796</u>	<u>13,262,239</u>
Total Net Position	<u>\$ 42,807,526</u>	<u>\$ 42,749,162</u>	<u>\$ 44,265,798</u>

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 2
Condensed Statements of Net Position

Water and Water Reclamation Utility

	2016	2015	2014
Current Assets/Deferred Outflows of Resources	\$ 7,531,639	\$ 5,967,436	\$ 6,632,300
Capital Assets	35,828,894	33,293,967	32,101,409
Total Assets	43,360,533	39,261,403	38,733,709
Long-term Liabilities	4,368,934	785,711	1,043,573
Other Liabilities	1,095,208	932,399	1,352,339
Total Liabilities	5,464,142	1,718,110	2,395,912
Net Investment in Capital Assets	32,017,238	32,289,510	30,180,445
Restricted	877,511	25,532	4,116,952
Unrestricted	5,001,642	5,228,251	2,040,400
Total Net Position	\$ 37,896,391	\$ 37,543,293	\$ 36,337,797

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 3
Condensed Statements of Net Position

	Communications Utility		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets/Deferred Outflows of Resources	\$ 164,310	\$ 14,132	\$ 31,499
Capital Assets	<u>829,842</u>	<u>844,877</u>	<u>856,106</u>
Total Assets	<u>994,152</u>	<u>859,009</u>	<u>887,605</u>
Long-term Liabilities	1,264,526	977,425	344,637
Other Liabilities	<u>25,504</u>	<u>21,661</u>	<u>548,063</u>
Total Liabilities	<u>1,290,030</u>	<u>999,086</u>	<u>892,700</u>
Net Investment in Capital Assets	829,842	844,877	856,106
Restricted	-	-	-
Unrestricted (Deficit)	<u>(1,125,720)</u>	<u>(984,954)</u>	<u>(861,201)</u>
Total Net Position (Deficit)	<u>\$ (295,878)</u>	<u>\$ (140,077)</u>	<u>\$ (5,095)</u>

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 4
Condensed Statements of Net Position

	Technology Center Utility		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 248,156	\$ 235,494	\$ 282,023
Capital Assets	<u>4,830,088</u>	<u>4,782,838</u>	<u>4,860,501</u>
Total Assets	<u>5,078,244</u>	<u>5,018,332</u>	<u>5,142,524</u>
Long-term Liabilities	3,952,647	4,114,609	4,723,594
Other Liabilities	<u>361,375</u>	<u>359,005</u>	<u>358,027</u>
Total Liabilities	<u>4,314,022</u>	<u>4,473,614</u>	<u>5,081,621</u>
Net Investment in Capital Assets	1,125,088	867,838	745,501
Restricted	-	-	-
Unrestricted (Deficit)	<u>(360,866)</u>	<u>(323,120)</u>	<u>(684,598)</u>
Total Net Position	<u>\$ 764,222</u>	<u>\$ 544,718</u>	<u>\$ 60,903</u>

The largest portion of RMU's net position **73%** reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, and infrastructure), less any outstanding debt used to acquire those assets that is still outstanding. RMU employs these capital assets to provide electric, water, water reclamation, and communication services to our service area. Consequently, these assets are restricted for future spending. Although the utility's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the associated debt must be provided from other cash generating sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of RMU's net position **10%** represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position **17%** may be used to meet the utilities' ongoing obligations to rate payers and creditors.

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

ELECTRIC OPERATIONS

Electric operations increased the 2016 utility's net position by \$58,364. This increase is primarily a result of the following items:

- Stability of purchased power costs
- Purchased 6 MW of peak shaving equipment
- Expansion of the Caron Road substation
- Addition of FERC tariff revenue stream

WATER/WATER RECLAMATION OPERATIONS

Water/Water Reclamation operations increased the 2016 utility's net position by \$353,098. This increase is primarily a result of the following items:

- Additional revenue from a temporary water reclamation contract
- Construction of a new well and tower
- Sanitary Sewer System 1 Upgrade

COMMUNICATION OPERATIONS

Communication operations decreased the 2016 utility's net position by \$155,801. This utility continues to work on the following:

- System expansion
- Marketing to fiber and VOIP customers

TECHNOLOGY CENTER

Technology Center operations increased the 2016 utility's net position by \$219,504. This increase is primarily a result of the following item:

- Addition of colocation customer
- Filling all available rack space

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

The Statement of Revenues, Expenses and Changes in Net Position provides an indication of the utilities' financial health.

Table 5
Condensed Statement of Revenues, Expenses
and Changes in Net Position

	Electric Utility		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 38,049,397	\$ 34,308,558	\$ 31,806,738
Non-operating revenues	<u>28,528</u>	<u>18,980</u>	<u>18,596</u>
Total Revenues	<u>38,077,925</u>	<u>34,327,538</u>	<u>31,825,334</u>
Depreciation expense	2,732,127	2,318,974	2,231,582
Other operating expenses	32,373,769	32,022,344	28,175,220
Non-operating expenses	<u>600,948</u>	<u>449,323</u>	<u>494,040</u>
Total Expenses	<u>35,706,844</u>	<u>34,790,641</u>	<u>30,900,842</u>
Income Before Capital Contributions and Transfers	2,731,081	(463,103)	924,492
Capital contributions		508,504	909,643
Transfers	<u>(1,758,391)</u>	<u>(1,562,037)</u>	<u>(1,497,578)</u>
Changes in Net Position	612,690	(1,516,636)	336,557

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 6
Condensed Statement of Revenues, Expenses
and Changes in Net Position

Water and Water Reclamation Utility

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 5,118,678	\$ 5,651,848	\$ 5,038,543
Non-operating revenues	<u>10,341</u>	<u>10,342</u>	<u>13,466</u>
Total Revenues	<u>5,129,019</u>	<u>5,662,190</u>	<u>5,052,009</u>
Depreciation expense	1,462,081	1,453,445	1,409,019
Other operating expenses	2,798,882	2,753,491	2,694,448
Non-operating expenses	<u>23,294</u>	<u>28,699</u>	<u>94,915</u>
Total Expenses	<u>4,284,258</u>	<u>4,235,635</u>	<u>4,198,382</u>
Income Before Capital Contributions and Transfers	844,762	1,426,555	853,627
Capital contributions	-	-	672,024
Transfers	<u>(226,735)</u>	<u>(221,059)</u>	<u>(211,981)</u>
Changes in Net Position	618,027	1,205,496	1,313,670

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 7
Condensed Statement of Revenues, Expenses
and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 628,911	\$ 680,050	\$ 831,694
Non-operating revenues	<u>-</u>	<u>-</u>	<u>7</u>
Total Revenues	<u>628,911</u>	<u>680,050</u>	<u>831,701</u>
Depreciation expense	75,091	73,343	70,610
Other operating expenses	648,769	740,692	762,255
Non-operating expenses	<u>832</u>	<u>997</u>	<u>1,163</u>
Total Expenses	<u>724,692</u>	<u>815,032</u>	<u>834,028</u>
Changes in Net Position	(95,781)	(134,982)	(2,327)

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
April 30, 2016, 2015, and 2014

FINANCIAL ANALYSIS OF RMU (cont.)

Table 8
Condensed Statement of Revenues, Expenses
and Changes in Net Position

Technology Center Utility

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 1,185,971	\$ 1,359,234	\$ 1,127,944
Non-operating revenues	<u>335</u>	<u>172</u>	<u>344</u>
Total Revenues	<u>1,186,306</u>	<u>1,359,406</u>	<u>1,128,288</u>
Depreciation expense	144,132	143,151	143,380
Other operating expenses	624,308	561,436	475,693
Non-operating expenses	<u>161,961</u>	<u>171,004</u>	<u>196,050</u>
Total Expenses	<u>930,396</u>	<u>875,591</u>	<u>815,123</u>
Changes in Net Position	255,905	483,815	313,165

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 30, 2016, 2015, and 2014

RMU BUDGETARY HIGHLIGHTS

The final Electric Fund revenue budget, including other non-operating income, totaled \$41,293,539. Actual revenues, including non-operating income were \$38,077,925. Total budgeted expenses were \$41,285,430. The Electric Fund's actual expenses totaled \$35,706,844 including non-operating expenses. This provided income before contributions and transfers of \$2,371,081.

The final Water/Water Reclamation Fund revenue budget totaled \$9,941,837 with actual revenues of \$5,129,019. The Water/Water Reclamation Fund's budgeted expenses were \$9,726,793, while actual expenses totaled \$4,284,257. This provided income before contributions and transfers of \$844,762.

The final Communications Fund expenditure budget totaled \$681,604. The total for revenues budgeted, including other non-operating income, was \$695,239. The Communications Fund's actual expenses totaled \$724,692, while actual income totaled \$628,911. This provided income before contributions and transfers of \$(95,781).

The final Technology Center Fund expenditure budget totaled \$1,244,002 while the revenue budget was \$1,266,179. The actual expenses totaled \$930,401 while total revenues were \$1,186,306. This provided income before contributions of \$255,905.

LONG-TERM DEBT

At April 30, 2016, the Electric fund had \$15,755,000 of long-term bonds outstanding. According to the ordinances authorizing the issuance of the Series 2008, 2014 and 2015 Electric System Revenue Bonds, RMU will provide net revenues in each fiscal year in the amount equal to not less than 1.2 times the principal and interest requirements coming due during the current year with respect to outstanding bonds. RMU – Electric Fund had net revenues of \$5,675,628 and the fiscal year 2016 revenue bond debt service amounted to \$1,161,293 resulting in a debt service coverage ratio of 4.89.

The repayment of bonds and loans are covered from operating revenues.

On October 21, 2014, the utility issued \$6,000,000 of electric debt to finance projects relating to the electric system. The debt is payable over 20 years at interest rates ranging from 2.00% to 5.00%.

On February 18, 2015, the utility currently refunded \$9,455,000 of electric debt at interest rates ranging from 3.00% - 4.00%. The refunded debt is payable over a 15 year period with the final payment commencing in 2030

ROCHELLE MUNICIPAL UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS April 30, 2016, 2015, and 2014

LONG-TERM DEBT (cont.)

On June 30, 2008 the utility issued \$5,000,000 of general obligation limited tax debt to finance the construction of a new building for a communications crisis management center. The debt is payable over 20 years and bears an interest rate of 4.27%.

On July 1, 2008 the utility currently refunded \$5,755,000 of electric revenue debt at interest rates ranging from 3.5% - 4.5%. The refunded debt is payable over 8 years with the final payment commencing in 2016.

On March 1, 2007, the utility borrowed \$600,000 from the IEPA to finance the Northwest Interceptor Sewer project. The debt is payable over 20 years and bears an interest rate of 2.89%.

On August 1, 1997, the utility borrowed \$3,191,177 from the IEPA to finance the Askvig Sewer project. The debt is payable over 20 years and bears an interest rate of 2.50%.

On October 17, 2015, the utility borrowed \$4,300,000 from the IEPA to finance a new well and water tower. The debt is payable over 20 years and bears an interest rate of 1.86%. Construction is expected to be completed in the spring of 2017 with the first payment due September 19, 2017.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

All currently known facts and economic conditions were considered in preparing the 2017 utility budget. None of these conditions are anticipated to significantly change the overall financial position of the utility.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the utilities' finances. If you have questions about this report, or need any additional information, contact Rochelle Municipal Utilities, Chris Cardott, Finance Director, 420 N. 6th St., Rochelle, IL 61068 or e-mail ccardott@rochelleil.us.

BASIC FINANCIAL STATEMENTS

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION

April 30, 2016

	Electric	Water and Water Reclamation	Communications	Technology Center	Total
CAPITAL ASSETS					
Depreciable - Plant in Service	\$ 78,973,130	\$ 58,099,381	\$ 3,689,301	\$ 5,431,981	\$ 146,193,793
Accumulated Depreciation	(42,424,805)	(28,534,035)	(2,859,459)	(1,121,346)	(74,939,645)
Nondepreciable	5,234,480	6,263,548	-	519,453	12,017,481
Net Capital Assets	41,782,805	35,828,894	829,842	4,830,088	83,271,629
CURRENT ASSETS					
Cash and Investments	7,432,456	4,481,422	-	95,017	12,008,895
Receivables					
Accounts	4,847,853	694,383	55,976	92,328	5,690,540
Accrued Interest	-	857	-	-	857
Other	199,093	143,834	-	-	342,927
Due from Other Governments	-	562,065	-	-	562,065
Prepaid Expenses	592,015	38,906	2,715	-	633,636
Inventory	2,323,733	3,480	-	-	2,327,213
Deposits	-	-	-	-	-
Restricted Assets					
Cash and Investments	6,557,069	857,979	-	-	7,415,048
Cash Held at Paying Agent	972,083	19,532	-	-	991,615
Total Current Assets	22,924,302	6,802,458	58,691	187,345	29,972,796
NONCURRENT ASSETS					
Advances to Other Funds	577,520	-	-	-	577,520
Special Assessments	-	284,301	-	-	284,301
Total Noncurrent Assets	577,520	284,301	-	-	861,821
Total Assets	65,284,627	42,915,653	888,533	5,017,433	114,106,246
DEFERRED OUTFLOWS OF RESOURCES					
Pension Items - IMRF	953,771	444,880	105,619	60,811	1,565,081
Unamortized Loss on Refunding	221,953	-	-	-	221,953
Total Deferred Outflows of Resources	1,175,724	444,880	105,619	60,811	1,787,034
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 66,460,351	\$ 43,360,533	\$ 994,152	\$ 5,078,244	\$ 115,893,280

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION (Continued)

April 30, 2016

	Electric	Water and Water Reclamation	Communications	Technology Center	Total
NET POSITION					
Net Investment in Capital Assets	\$ 25,142,069	\$ 32,017,238	\$ 829,842	\$ 1,125,088	\$ 59,114,237
Restricted for Debt Service	7,529,152	877,511	-	-	8,406,663
Unrestricted (Deficit)	10,136,305	5,001,642	(1,125,720)	(360,866)	13,651,361
Total Net Position (Deficit)	42,807,526	37,896,391	(295,878)	764,222	81,172,261
LONG-TERM LIABILITIES					
General Obligation Bonds Payable	-	-	-	3,485,000	3,485,000
Revenue Bonds Payable	16,217,689	-	-	-	16,217,689
IEPA Loans Payable	-	3,545,537	-	-	3,545,537
Net Pension Liability	1,765,269	823,397	195,483	112,551	2,896,700
Advance from Other Funds	-	-	1,069,043	355,096	1,424,139
Total Long-Term Liabilities	17,982,958	4,368,934	1,264,526	3,952,647	27,569,065
CURRENT LIABILITIES					
Accounts Payable	4,137,256	672,162	7,373	923	4,817,714
Customer Advances	259,482	-	-	-	259,482
Accrued Payroll	43,818	17,856	2,872	2,928	67,474
Accrued Interest Payable	327,083	15,451	-	131,836	474,370
Other Payables	145,664	73,785	2,738	-	222,187
General Obligation Debt Payable	-	-	-	220,000	220,000
Revenue Bonds Payable	645,000	-	-	-	645,000
IEPA Loans Payable	-	266,119	-	-	266,119
Compensated Absences Payable	111,564	49,835	12,521	5,688	179,608
Total Current Liabilities	5,669,867	1,095,208	25,504	361,375	7,151,954
Total Liabilities	23,652,825	5,464,142	1,290,030	4,314,022	34,721,019
TOTAL NET POSITION AND LIABILITIES	\$ 66,460,351	\$ 43,360,533	\$ 994,152	\$ 5,078,244	\$ 115,893,280

See accompanying notes to financial statements.

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended April 30, 2016

	Electric	Water and Water Reclamation	Communications	Technology Center	Total
OPERATING REVENUES					
Charges for Services	\$ 37,475,729	\$ 5,050,143	\$ 628,911	\$ 1,185,971	\$ 44,340,754
Miscellaneous	573,668	68,535	-	-	642,203
Total Operating Revenues	38,049,397	5,118,678	628,911	1,185,971	44,982,957
OPERATING EXPENSES					
Operations	32,373,769	2,798,882	648,769	624,308	36,445,728
Depreciation and Amortization	2,732,127	1,462,081	75,091	144,132	4,413,431
Total Operating Expenses	35,105,896	4,260,963	723,860	768,440	40,859,159
OPERATING INCOME (LOSS)	2,943,501	857,715	(94,949)	417,531	4,123,798
NON-OPERATING REVENUES (EXPENSES)					
Investment Income	28,528	10,341	-	335	39,204
Interest Expense	(600,948)	(23,294)	(832)	(161,961)	(787,035)
Total Non-Operating Revenues (Expenses)	(572,420)	(12,953)	(832)	(161,626)	(747,831)
NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	2,371,081	844,762	(95,781)	255,905	3,375,967
TRANSFERS					
Transfers to the City	(1,758,391)	(226,735)	-	-	(1,985,126)
Total Transfers	(1,758,391)	(226,735)	-	-	(1,985,126)
CONTRIBUTIONS					
	-	-	-	-	-
CHANGE IN NET POSITION	612,690	618,027	(95,781)	255,905	1,390,841
NET POSITION, MAY 1, AS ORIGINALLY STATED	42,749,162	37,543,293	(140,077)	544,718	80,697,096
Change in Accounting Principle	(554,326)	(264,929)	(60,020)	(36,401)	(915,676)
NET POSITION (DEFICIT) MAY 1, RESTATED	42,194,836	37,278,364	(200,097)	508,317	79,781,420
NET POSITION (DEFICIT), APRIL 30	\$ 42,807,526	\$ 37,896,391	\$ (295,878)	\$ 764,222	\$ 81,172,261

See accompanying notes to financial statements.

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS

For the Year Ended April 30, 2016

	Electric	Water and Reclamation	Communications	Technology Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 38,370,746	\$ 5,049,186	\$ 135,473	\$ 1,041,387	\$ 44,596,792
Receipts from Interfund Service Transactions	-	-	440,847	81,680	522,527
Receipts from Other Sources	-	-	-	-	-
Payments to Suppliers	(31,359,446)	(987,620)	(223,875)	(146,268)	(32,717,209)
Payments to Employees	(1,374,636)	(1,275,421)	(292,842)	(179,096)	(3,121,995)
Payments to Other Funds	(146,045)	(930,386)	(102,691)	(289,034)	(1,468,156)
Net Cash from Operating Activities	5,490,619	1,855,759	(43,088)	508,669	7,811,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Receipts of Loans from Other Funds	-	-	159,115	-	159,115
Repayments from Loans to Other Funds	493,048	-	-	-	493,048
Repayment of Loans from Other Funds	-	-	(55,139)	(49,242)	(104,381)
Interest Paid on Interfund Loans	-	-	(832)	(2,263)	(3,095)
Transfers to the City	(1,758,391)	(226,735)	-	-	(1,985,126)
Net Cash from Noncapital Financing Activities	(1,265,343)	(226,735)	103,144	(51,505)	(1,440,439)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital Assets Purchased	(5,989,788)	(3,373,769)	(60,056)	(191,381)	(9,614,994)
Issuance of Long-Term Debt	-	2,503,817	-	-	2,503,817
Principal Payments on Long-Term Debt	(645,000)	(258,700)	-	(210,000)	(1,113,700)
Interest Payments on Long-Term Debt	(654,382)	(25,647)	-	(167,171)	(847,200)
Grant Receipts	-	-	-	-	-
Net Cash from Capital and Related Financing Activities	(7,289,170)	(1,154,299)	(60,056)	(568,552)	(9,072,077)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Received on Investments	28,528	10,331	-	335	39,194
Net Cash from Investing Activities	28,528	10,331	-	335	39,194
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,035,366)	485,056	-	(111,053)	(2,661,363)
CASH AND CASH EQUIVALENTS, MAY 1	17,024,891	4,854,344	-	206,070	22,085,305
CASH AND CASH EQUIVALENTS, APRIL 30	\$ 13,989,525	\$ 5,339,400	\$ -	\$ 95,017	\$ 19,423,942

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS (Continued)

For the Year Ended April 30, 2016

	Electric	Water and Reclamation	Communications	Technology Center	Total
RECONCILIATION OF OPERATING INCOME					
(LOSS) TO NET CASH FLOWS FROM					
OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 2,943,501	\$ 857,715	\$ (94,949)	\$ 417,531	\$ 4,123,798
Adjustments to Reconcile Operating Income					
(Loss) to Net Cash from Operating Activities					
Depreciation and Amortization	2,732,127	1,462,081	75,091	144,132	4,413,431
Changes in Assets and Liabilities					
Accounts Receivable	(395,561)	37,977	(52,591)	(62,904)	(473,079)
Other Receivables	552,166	(142,821)	-	-	409,345
Prepaid Expenses	(269,984)	3,262	8,032	-	(258,690)
Inventory	(57,893)	-	-	-	(57,893)
Deposits	368,658	5,945	-	-	374,603
Special Assessments	-	29,407	-	-	29,407
Deferred Outflows - Pension Items - IMRF	(854,501)	(404,944)	(93,261)	(55,541)	(1,408,247)
Accounts Payable	(349,161)	(477,471)	4,530	(183)	(822,285)
Customer Advances	(203,914)	-	-	-	(203,914)
Accrued Payroll	6,506	3,034	(107)	133	9,566
Other Payables	9,115	-	-	-	9,115
Compensated Absences	(2,843)	2,978	(580)	(107)	(552)
Net Pension Liability	1,012,403	478,596	110,747	65,608	1,667,354
NET CASH FROM OPERATING ACTIVITIES	\$ 5,490,619	\$ 1,855,759	\$ (43,088)	\$ 508,669	\$ 7,811,959
CASH AND INVESTMENTS					
Cash and Cash Investments	\$ 7,432,456	\$ 4,481,422	\$ -	\$ 95,017	\$ 12,008,895
Restricted Assets					
Cash and Investments	6,557,069	857,979	-	-	7,415,048
TOTAL CASH AND INVESTMENTS	\$ 13,989,525	\$ 5,339,401	\$ -	\$ 95,017	\$ 19,423,943
NONCASH TRANSACTIONS					
Transfers of Capital Assets	\$ 5,876,712	\$ -	\$ -	\$ -	\$ 5,876,712
Illinois EPA Loan Receivable	-	562,065	-	-	562,065
Illinois EPA Loan Payable	-	(562,065)	-	-	(562,065)
TOTAL NONCASH TRANSACTIONS	\$ 5,876,712	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

April 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Rochelle Municipal Utilities (RMU) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units and regulated enterprises (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the RMU's accounting policies are described below.

A. Reporting Entity

RMU is comprised of certain proprietary funds of the City of Rochelle, Illinois (the City). RMU is accounted for as a distinct and separate departmental entity of the City and includes the City's Electric Fund, the Water and Water Reclamation Fund, the Communications Fund and the Technology Center Fund.

The Electric Utility Fund accounts for the activities of the electric system. The Electric Fund's present generation capacity consists of ten diesel generating units (with an aggregate a nameplate rating of 22,700 KW) and one solar gas turbine generator unit (with a nameplate rating of 4,200 KW).

The Water and Water Reclamation Fund accounts for the activities of the water and water reclamation system. The water and water reclamation system provides water supply to residents and businesses in the City and operates and maintains sanitary sewers and wastewater treatment facilities. Water is obtained from four deep wells with a combined capacity of approximately 8.0 million gallons per day, compared to a daily demand of 3.4 million gallons in the service area. A 4.9 million gallon per day sewerage plant provides primary, secondary and tertiary treatment for the 2.5 million gallons per day wastewater flow discharge from the plant.

The Communications Fund accounts for the activities of a fiber optic network that provides internet and high-speed data transfer services to customers in the City and the surrounding area.

The Technology Center Fund accounts for the activities of the RMU Technology Center that accounts for revenue received for rack space, collocation space and dark fiber and expenses associated with the construction of the Technology Center, debt service and fiber infrastructure.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

RMU uses funds to report on its financial position and changes in its financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. RMU's funds are classified as proprietary funds.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

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

RMU's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Operating revenues/expenses include all revenues/expenses directly related to providing enterprise fund services. Incidental revenues/expenses are reported as non-operating.

RMU reports unearned revenue on its financial statements. Unearned revenue arises when a revenue is measurable but not earned under the accrual basis of accounting. Unearned revenues also arise when resources are received by RMU before it has a legal claim to them or prior to the provision of services, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when RMU has a legal claim to the resources, the liability for unearned revenue is removed from the financial statements and revenue is recognized.

D. Cash and Investments

Cash and Cash Equivalents

For purposes of the statement of cash flows, RMU considers their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

Investments

Investments with a maturity less than one year when purchased are stated at cost or amortized cost. Investments with a maturity of one year or greater when purchased are reported at fair value. Fair value has been based on quoted market prices at April 30, 2016, for debt and equity securities and contract values for mutual funds.

E. Materials and Supplies Inventory

Electric Fund - Inventory consisting of natural gas, diesel fuel and materials and supplies are generally used for construction or operations, not for resale. They are valued at average cost and charged to construction or expense when used.

Water and Water Reclamation Fund - Inventory consisting of materials and supplies are generally used for construction or operations, not for resale. Inventory is valued at average cost and is charged to system improvements or expense when used.

Communications Fund - Inventory consisting of fiber optic cable and materials and supplies, are used in the course of operation. They are valued at average cost and are charged to system improvements or expense when used.

Technology Center Fund - Inventory consisting of fiber optic cable and materials and supplies, are used in the course of operation. They are valued at average cost and are charged to system improvements or expense when used.

F. Restricted Assets

Certain cash and investments of RMU are restricted in accordance with the ordinances authorizing the issuance of the revenue bonds. These assets are reflected as restricted cash and investments and restrictions of net position.

G. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items/expenses.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets are defined by RMU as assets with an initial, individual cost in excess of the following and an estimated useful life in excess of one year.

<u>Asset Class</u>	<u>Capitalization Threshold</u>
Land	\$ -
Vehicles, Machinery, Furniture and Equipment	5,000
Buildings, Land Improvements and Infrastructure (All Systems)	25,000

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.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-40
Vehicles, Machinery and Equipment	5-20
Land Improvements	20-30
Utilities System	5-77
Infrastructure	10-50

I. Vacation, Sick Pay and Other Employee Benefits

Vested and accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. Sick leave does not vest or accumulate and, therefore, no liability has been recorded for sick leave.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Interfund Transactions

Interfund service transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

All other interfund transactions, except interfund service transactions and reimbursements, are reported as transfers.

K. Interfund Receivables/Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

L. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund financial statements. Bond premiums and discounts and gains/losses on refundings, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

M. Net Position

Restricted net position is legally restricted by outside parties for a specific purpose. None of RMU’s restricted net position result from enabling legislation adopted by the City. Net investment in capital assets represents RMU’s investment in the book value of capital assets, less any outstanding debt that was issued to construct or acquire the capital asset.

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

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

RMU participates in a cash and investment pool maintained by the City. The investments are governed by an investment policy for the City adopted by the City Council.

In accordance with the City's investment policy, monetary assets may be placed in all instruments permitted by the Illinois Public Funds Investment Act. This act permits deposits and investments in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, obligations of states and their political subdivisions, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services and Illinois Funds.

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

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

2. CASH AND INVESTMENTS (Continued)

Deposits with Financial Institutions

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

Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City limits its exposure to interest rate risk by structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools. Unless matched to a specific cash flow, the City does not directly invest in securities maturing more than five years from the date of purchase.

The City limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government (Treasury obligations) or securities issued by agencies of the United States Government that are explicitly guaranteed by the United States Government (GNMAs and Federal Home Loan Bank). However, the investment policy is generally silent regarding credit risk.

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

The City's investment policy is silent on concentration of credit risk.

The City's investment policy specifically prohibits the use of or the investment in derivatives, unless separately approved by the City Council.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

3. CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
ELECTRIC				
Capital Assets not Being Depreciated				
Land	\$ 697,664	\$ -	\$ -	\$ 697,664
Construction in Progress	1,449,284	8,964,244	5,876,712	4,536,816
Total Capital Assets not Being Depreciated	2,146,948	8,964,244	5,876,712	5,234,480
Capital Assets Being Depreciated				
Generation	12,349,710	412,956	1,215,663	11,547,003
Transmission	13,188,016	698,465	-	13,886,482
Distribution	45,042,121	4,908,631	77,283	49,873,469
General	3,642,779	23,397	-	3,666,176
Total Capital Assets Being Depreciated	74,222,626	6,043,449	1,292,946	78,973,130
Less Accumulated Depreciation for				
Generation	6,376,520	194,102	-	6,570,622
Transmission	7,665,986	505,593	-	8,171,579
Distribution	24,784,326	1,959,576	-	26,743,902
General	865,846	72,856	-	938,702
Total Accumulated Depreciation	39,692,678	2,732,127	-	42,424,805
Total Capital Assets Being Depreciated, Net	34,529,948	3,311,322	1,292,946	36,548,325
TOTAL ELECTRIC CAPITAL ASSETS, NET	\$ 36,676,896	\$ 12,275,566	\$ 7,169,658	\$ 41,782,805
WATER AND WATER RECLAMATION				
Capital Assets not Being Depreciated				
Land	\$ 262,358	\$ -	\$ -	\$ 262,358
Construction in Progress	3,425,707	4,117,375	1,541,892	6,001,190
Total Capital Assets not Being Depreciated	3,688,065	4,117,375	1,541,892	6,263,548
Capital Assets Being Depreciated				
Infrastructure	46,397,962	1,399,619	-	47,797,581
Equipment	10,279,894	21,906	-	10,301,800
Total Capital Assets Being Depreciated	56,677,856	1,421,525	-	58,099,381
Less Accumulated Depreciation for				
Infrastructure	21,084,547	1,201,939	-	22,286,486
Equipment	5,987,407	260,142	-	6,247,549
Total Accumulated Depreciation	27,071,954	1,462,081	-	28,534,035
Total Capital Assets Being Depreciated, Net	29,605,902	(40,556)	-	29,565,346
TOTAL WATER AND WATER RECLAMATION CAPITAL ASSETS, NET	\$ 33,293,967	\$ 4,076,819	\$ 1,541,892	\$ 35,828,894

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

3. CAPITAL ASSETS (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
COMMUNICATIONS				
Capital Assets not Being Depreciated				
Land Rights	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not Being Depreciated	-	-	-	-
Capital Assets Being Depreciated				
General	3,629,245	60,056	-	3,689,301
Total Capital Assets Being Depreciated	3,629,245	60,056	-	3,689,301
Less Accumulated Depreciation for				
General	2,784,368	75,091	-	2,859,459
Total Accumulated Depreciation	2,784,368	75,091	-	2,859,459
Total Capital Assets Being Depreciated, Net	844,877	(15,035)	-	829,842
TOTAL COMMUNICATION CAPITAL ASSETS, NET	\$ 844,877	\$ (15,035)	\$ -	\$ 829,842
TECHNOLOGY CENTER				
Capital Assets not Being Depreciated				
Land Rights	\$ 519,453	\$ -	\$ -	\$ 519,453
Total Capital Assets not Being Depreciated	519,453	-	-	519,453
Capital Assets Being Depreciated				
Building	4,254,816	171,911	-	4,426,727
General	985,784	19,470	-	1,005,254
Total Capital Assets Being Depreciated	5,240,600	191,381	-	5,431,981
Less Accumulated Depreciation for				
Building	729,426	100,730	-	830,156
General	247,788	43,402	-	291,190
Total Accumulated Depreciation	977,214	144,132	-	1,121,346
Total Capital Assets Being Depreciated, Net	4,263,386	47,249	-	4,310,635
TOTAL TECHNOLOGY CENTER CAPITAL ASSETS, NET	\$ 4,782,839	\$ 47,249	\$ -	\$ 4,830,088

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT

	Balances May 1, Restated	Additions	Reductions	Balances April 30	Current Portion
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds					
2008 Refunding Bonds	\$ 1,260,000	\$ -	\$ 615,000	\$ 645,000	\$ 645,000
2014 Electric System Bonds	6,000,000	-	-	6,000,000	-
2015 Electric System Bonds	9,110,000	-	-	9,110,000	-
Total Revenue Bonds	16,370,000	-	615,000	15,755,000	645,000
General Obligation Debt Certificates	3,915,000	-	210,000	3,705,000	220,000
IEPA Revolving Loans	1,004,474	3,065,882	258,700	3,811,656	266,119
Unamortized Premium	1,195,497	-	87,808	1,107,689	-
Compensated Absences	180,160	179,608	180,160	179,608	179,608
Net Pension Liability - IMRF	1,199,744	1,696,956	-	2,896,700	-
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 23,864,875	\$ 4,942,446	\$ 1,351,668	\$ 27,455,653	\$ 1,310,727

As discussed in Note 11, beginning balances were restated to record the opening net pension liability amounts and to write off the previously reported net pension obligations for the Illinois Municipal Retirement Fund.

Bonds payable at April 30, 2016 are comprised of the following, excluding the refunded bonds that are deceased in-substance.

General Obligation Debt

	Total	Current Portion
\$5,000,000 2008 Limited Tax Debt Certificates, due in annual installments of \$165,000 to \$350,000 from June 30, 2009 to June 30, 2028, interest at 4.27%, retired by the Technology Center Fund.	\$ 3,705,000	\$ 220,000
TOTAL	\$ 3,705,000	\$ 220,000

Revenue and Alternate Revenue Source Bonds

\$5,755,000 Series 2008 Electric System Revenue Refunding Revenue Bonds, due in annual installments of \$565,000 to \$665,000, through May 1, 2016, interest from 3.5% to 4.5%.	\$ 645,000	\$ 645,000
\$6,000,000 Series 2014 Electric System Revenue Bonds due in annual installments of \$95,000 to \$1,215,000, through May 1, 2034, interest from 2% to 5%.	6,000,000	-

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

Revenue and Alternate Revenue Source Bonds (Continued)

	Total	Current Portion
\$9,110,000 Series 2015 Electric System Revenue Refunding Revenue Bonds, due in annual installments of \$505,000 to \$830,000, through May 1, 2030, interest from 3% to 4%.	\$ 9,110,000	\$ -
TOTAL	\$ 15,755,000	\$ 645,000

Illinois EPA Loans

\$3,191,177 Illinois EPA low interest loan related to the Northwest Interceptor Sewer project, due in semiannual installments of \$122,605, through August 2017, interest at 2.89%.	\$ 357,434	\$ 236,577
\$600,000 Illinois EPA low interest loan related to the Askvig Subdivision project, due in semiannual installments of \$19,532, through May 2027, interest at 2.5%.	388,340	29,542
\$4,300,000 Illinois EPA low interest loan related to the Well #12 Project.*	3,065,882	-
TOTAL	\$ 3,811,656	\$ 266,119

*The City had not drawn the full amount of the IEPA loan at April 30, 2016; therefore, a debt service to maturity schedule is not available.

Debt Service to Maturity

The annual requirements to amortize all debt outstanding as of April 30, 2016, are as follows:

Year Ending April 30,	G.O. Debt Certificates		Revenue Bonds		Illinois EPA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 220,000	\$ 158,204	\$ 645,000	\$ 639,653	\$ 266,119	\$ 17,795
2018	230,000	148,810	600,000	616,615	151,139	10,169
2019	240,000	138,989	615,000	598,865	31,045	7,659
2020	250,000	138,087	630,000	580,190	31,825	6,879
2021	260,000	126,637	650,000	558,240	32,626	6,078
2022-2026	1,470,000	444,718	3,655,000	2,382,800	175,859	17,661
2027-2031	1,035,000	95,493	4,430,000	1,581,480	57,161	1,075
2032-2036	-	-	4,530,000	466,750	-	-
TOTAL	\$ 3,705,000	\$ 1,250,938	\$ 15,755,000	\$ 7,424,593	\$ 745,774	\$ 67,316

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

4. LONG-TERM DEBT (Continued)

The bonds of several issues are subject to redemption and payment prior to their maturity, at the option of the City.

Revenue Source Bonds

The City issued the Series 2008 Refunding Electric Alternate Revenue Source Bonds, the Series 2014 Electric Revenue Alternate Revenue Source Bonds and the Series 2015 Refunding Electric Alternate Revenue Source Bonds to provide funds for electric capital improvements. These bonds are payable from a pledge of the City's electric revenues and are being repaid by the Electric Fund. The bonds are payable solely from electric revenues and are payable through 2034. The total principal and interest remaining to be paid on the bonds as of April 30, 2016 is \$ 23,179,593. Principal and interest paid for the current year was \$1,161,293 or 20.39% of total customer net revenues of \$5,696,529.

5. REVENUE BONDS

The revenue bond ordinances require that all revenues derived from the operation of the Electric Fund be segregated in separate accounts, in the priority indicated by the order of the following:

Account	Amount	Nature of Authorized Expenditures
Operation and Maintenance	Sufficient amount to pay reasonable expenses for one month's operations	Expenses of operating, maintaining and repairing the system
Bond and Interest	Amount sufficient to pay the current bond and interest maturities	Paying principal and interest on bonds
Bond Reserve	\$30,000 per month until account aggregates an amount equal to bond and interest requirements for any succeeding fiscal year	Paying principal and interest on bonds when there are insufficient funds in the bond and interest account
Depreciation, Improvement and Extension	\$20,000 per month until the account aggregates a minimum of \$7,000,000	Cost of extraordinary maintenance, necessary replacement and improvement or extension of the system
Capital Improvement	\$120,000 per month until the account aggregates a minimum of \$1,500,000	Capital improvements and repairs to or extensions of the System and any extraordinary repairs or replacements
Surplus Revenue	The amount remaining after payment into the above four accounts	Making up deficiencies in the aforementioned accounts, paying of junior lien bonds and for any other lawful corporate purpose

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

5. REVENUE BONDS (Continued)

The City has complied with all significant limitations, restrictions and bond covenants during the year ended April 30, 2016. The restricted assets and restricted net position for purposes other than bond proceeds and the expenses of operating, maintaining and repairing the system, is as follows:

RESTRICTED BOND ORDINANCE ACCOUNTS	
Bond and Interest Account	\$ 1,853,204
Bond Reserve Account	2,143,111
Capital Improvement Account	1,556,991
Depreciation, Improvement and Extension Account	<u>2,853,357</u>
 TOTAL	 <u>\$ 8,406,663</u>

6. DEFINED BENEFIT PENSION PLAN

RMU contributes, through the City, to the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer public employee retirement system. However, RMU's participation in IMRF is equivalent to a cost sharing multiple-employer pension plan since only one actuarial valuation is performed for both the City and RMU combined. All disclosures for an agent plan can be found in the City's comprehensive annual financial report.

Illinois Municipal Retirement Fund

Plan Administration

All employees hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members.

The plan is accounted for on the economic resources measurement focus and the accrual basis of accounting. Employer and employee contributions are recognized when earned in the year that the contributions are required, benefits and refunds are recognized as an expense and liability when due and payable.

Benefits Provided

IMRF provides two tiers of pension benefits. Employees hired prior to January 1, 2011, are eligible for Tier 1 benefits. For Tier 1 employees, pension benefits vest after eight years of service. Participating members who retire at age 55 (reduced benefits) or after age 60 (full benefits) with eight 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.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Benefits Provided (Continued)

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating members who retire at age 62 (reduced benefits) or after age 67 (full benefits) with ten 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. IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute.

Contributions

Participating members are required to contribute 4.5% of their annual salary to IMRF. The City and RMU are required to contribute the remaining amounts necessary to fund IMRF as specified by statute. The employer contribution rate for the calendar year ended 2015 was 11.83% of covered payroll. For the year ended April 30, 2016, salaries totaling \$3,452,820 were paid that required employer contributions of \$393,435, which was equal to the RMU's actual contributions.

Net Pension Liability

At April 30, 2016, RMU reported a liability of \$2,896,700 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. RMU's proportion of the net pension liability was based on RMU's actual contribution to the plan for the year ended December 31, 2015 relative to the contributions of the City, actuarially determined. At April 30, 2016, RMU's proportion was 57.21% of the total contribution.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Actuarial Assumptions

RMU's net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of the same date using the following actuarial methods and assumptions.

Actuarial Valuation Date	December 31, 2015
Actuarial Cost Method	Entry-Age Normal
Assumptions	
Inflation	2.75%
Salary Increases	3.75% to 14.50%
Interest Rate	7.50%
Cost of Living Adjustments	3.00%
Asset Valuation Method	Market Value

For nondisabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustments that were applied for nondisabled lives. For active members, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Discount Rate

The discount rate used to measure the IMRF total pension liability was 7.48%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the employer's fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.50% was blended with the index rate of 3.57% for tax exempt general obligation municipal bonds rated AA or better at December 31, 2015 to arrive at a discount rate of 7.48% used to determine the total pension liability.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the period ended April 30, 2016, RMU recognized pension expense of \$650,321. At April 30, 2016, RMU reported deferred outflows of resources and deferred inflows of resources related to IMRF from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflow of Resources
Difference Between Expected and Actual Experience	\$ 348,567	\$ -	\$ 348,567
Changes in Assumption	18,996	-	18,996
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,059,030	-	1,059,030
Contributions after Measurement Date	138,488	-	138,488
TOTAL	\$ 1,565,081	\$ -	\$ 1,565,081

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

6. DEFINED BENEFIT PENSION PLAN (Continued)

Illinois Municipal Retirement Fund (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to IMRF will be recognized in pension expense as follows:

Year Ending April 30,	
2017	\$ 520,700
2018	382,212
2019	382,212
2020	<u>279,957</u>
 TOTAL	 <u><u>\$ 1,565,081</u></u>

Discount Rate Sensitivity

The following is a sensitive analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability of RMU calculated using the discount rate of 7.48% as well as what RMU's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.48%) or 1 percentage point higher (8.48%) than the current rate:

	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Net Pension Liability	\$ 5,604,490	\$ 2,896,700	\$ 652,281

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

7. RISK MANAGEMENT

RMU is exposed to various risks of loss, including but not limited to, property and casualty, general and public officials' liability, workers' compensation and employee's health. RMU mitigates these risks through participation in city-wide risk management programs. The City purchases commercial health insurance and is not aware of any additional amounts owed as of April 30, 2016 for the current or prior claim years. Additional information on the City's risk management program can be found in the City's annual financial report.

8. CONTRACTS, COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

B. Grants

Amounts received and receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Northern Illinois Municipal Power Agency

On May 24, 2004, the City entered into a contract with the Cities of Batavia, Geneva and Geneseo to form a municipal power agency called Northern Illinois Municipal Power Agency (NIMPA). NIMPA declared its intent to acquire from Prairie State Generating Company, LLC an undivided ownership interest as a tenant-in-common in an approximately 1,620 mega-watt "mine mouth" coal fired power generating facility located in Washington County, Illinois, along with certain coal reserves, other related tangible and intangible property and related costs. This ownership interest is referred to as the Prairie State Project.

On November 4, 2004, the City entered into the Peabody Prairie State Project Committee Agreement along with other NIMPA members for the purpose of allocating the preliminary costs of developing and negotiating the documents and agreements necessary to enable NIMPA to acquire ownership interest in the Prairie State Project. On January 24, 2005, the City agreed to enter into additional agreements with the other NIMPA members in order to participate in the Prairie State Project.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

8. CONTRACTS, COMMITMENTS AND CONTINGENCIES (Continued)

C. Northern Illinois Municipal Power Agency (Continued)

The City's entitlement share of the project is 1.9%; therefore, RMU were required to transfer 1.9%, or \$302,461, of total Prairie State Project fees to NIMPA. The City also entered into an agreement to make monthly transfers to NIMPA to enable NIMPA to meet its payment obligations under the project development agreement. The estimated monthly project cost payments total \$677,492. NIMPA has 120 mega-watts, of which the City has rights to 30 mega-watts. During August 2008, NIMPA issued Bond Anticipation Notes to fund the development costs to date.

NIMPA's outstanding debt service obligation is to be paid by its members through their wholesale power charges through the remainder of the long-term contract, which is \$494 million as of January 1, 2016 (most recent information available).

9. INTERFUND ACCOUNTS

A. Advances From/To

Advances from/to other RMU funds at April 30, 2016 consisted of the following:

	Advance To	Advance From
	<u> </u>	<u> </u>
Electric	\$ 577,520	\$ -
Communications	-	1,069,043
Technology Center	-	355,096
City - Nonmajor Enterprise Fund	961,059	-
City - Nonmajor Governmental Fund	-	114,440
	<u> </u>	<u> </u>
TOTAL	<u>\$ 1,538,579</u>	<u>\$ 1,538,579</u>

The purposes of the advances from/to other funds are as follows:

- \$577,520 advanced from the Electric Utility Fund to the Technology Center and Communications Fund is for funding of capital projects. Repayment is not expected within one year.
- \$961,059 advanced from the Landfill Fund (Nonmajor Enterprise Fund) to the Communications Fund and TIF Development Fund (Nonmajor Governmental Fund) to cover cash deficits. Repayment is not expected within one year.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

9. INTERFUND ACCOUNTS (Continued)

B. Interfund Transfers

Interfund transfers during the year ended April 30, 2016 consisted of the following:

	Transfer In	Transfer Out
City - General Fund	\$ 1,985,126	\$ -
Electric Utility	-	1,758,391
Water and Water Reclamation	-	226,735
TOTAL	\$ 1,985,126	\$ 1,985,126

The purposes of significant interfund transfers are as follows:

- \$1,985,126 transferred to the City - General Fund was made up of \$1,758,391 from the Electric Fund and \$226,735 from the Water and Water Reclamation Fund for annual transfers as permitted under bond ordinances. The transfers will not be repaid.

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

In addition to providing the pension benefits described, the City provides postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions 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. Additional information regarding this plan can be found in the City's annual financial report.

ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS (Continued)

11. CHANGE IN ACCOUNTING PRINCIPLE

	Electric	Water and Water Reclamation	Communications	Technology Center	Total
CHANGE IN ACCOUNTING PRINCIPLE - GOVERNMENTAL ACTIVITIES					
To Record the IMRF Net Pension Liability	\$ (731,132)	\$ (341,032)	\$ (80,964)	\$ (46,616)	\$ (1,199,744)
To Record the IMRF Deferred Outflows of Resources	77,536	36,167	8,586	4,944	127,233
To Write-Off the IMRF Net Pension Obligation	99,270	39,936	12,358	5,271	156,835
TOTAL CHANGE IN ACCOUNTING PRINCIPLE - GOVERNMENTAL ACTIVITIES	<u>\$ (554,326)</u>	<u>\$ (264,929)</u>	<u>\$ (60,020)</u>	<u>\$ (36,401)</u>	<u>\$ (915,676)</u>

With the implementation of GASB Statements No. 68 and No. 71, the City is required to retroactively record the net pension liability, write off the net pension obligation, and record deferred outflows of resources for contributions subsequent to the measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
ILLINOIS MUNICIPAL RETIREMENT FUND**

April 30, 2016

	<u>2016</u>
Contractually Required Contribution	\$ 391,212
Contributions in Relation to the Contractually Required Contribution	<u>391,212</u>
CONTRIBUTION DEFICIENCY (Excess)	<u><u>\$ -</u></u>
Covered-Employee Payroll	\$ 3,453,001
Contributions as a Percentage of Covered-Employee Payroll	11.33%

Notes to Required Supplementary Information

The information presented was determined as part of the actuarial valuations as of December 31, 2013 and 2014. Additional information as of the December 31, 2013 valuation is as follows: the actuarial cost method was entry-age normal; the amortization method was level percent of pay, closed and the amortization period was 28 years; the asset valuation method was five-year smoothed market; and the significant actuarial assumptions were an investment rate of return at 7.5% annually, projected salary increases assumption of 4.4% to 16.0% compounded annually and postretirement benefit increases of 3.0% compounded annually.

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**SCHEDULE OF RMU'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
ILLINOIS MUNICIPAL RETIREMENT FUND**

April 30, 2016

	<u>2016</u>
Employer's Proportion of Net Pension Liability	57.21%
Employer's Proportionate Share of Net Pension Liability	\$ 2,896,700
Employer's Covered-Employee Payroll	3,453,001
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	83.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.65%

(See independent auditor's report.)

SUPPLEMENTAL INFORMATION

ELECTRIC FUND

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION
ELECTRIC FUND

April 30, 2016
(with Comparative Totals)

	2016	2015
CAPITAL ASSETS		
Depreciable - Plant in Service	\$ 78,973,130	\$ 74,222,626
Accumulated Depreciation	(42,424,805)	(39,692,678)
Nondepreciable	5,234,480	2,146,948
Net Capital Assets	41,782,805	36,676,896
CURRENT ASSETS		
Cash and Investments	7,432,456	6,954,460
Receivables		
Accounts	4,847,853	4,452,291
Other	199,093	751,259
Prepaid Expenses	592,015	322,031
Inventory	2,323,733	2,265,841
Deposits	-	368,658
Restricted Assets		
Cash and Investments	6,557,069	10,070,431
Cash Held at Paying Agent	972,083	834,211
Total Current Assets	22,924,302	26,019,182
NONCURRENT ASSETS		
Advance to Other Funds	577,520	1,070,568
Total Noncurrent Assets	577,520	1,070,568
Total Assets	65,284,627	63,766,646
DEFERRED OUTFLOWS OF RESOURCES		
Pension Items - IMRF	953,771	-
Unamortized Loss on Refunding	221,953	256,325
Total Deferred Outflows of Resources	1,175,724	256,325
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 66,460,351	\$ 64,022,971

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION (Continued)
ELECTRIC FUND

April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
NET POSITION		
Net Investment in Capital Assets	\$ 25,142,069	\$ 19,367,724
Restricted for Debt Service	7,529,152	10,904,642
Unrestricted	10,136,305	12,476,796
	<hr/>	
Total Net Position	42,807,526	42,749,162
	<hr/>	
LONG-TERM LIABILITIES		
Revenue Bonds Payable	16,217,689	16,950,497
Net Pension Liability	1,765,269	99,270
	<hr/>	
Total Long-Term Liabilities	17,982,958	17,049,767
	<hr/>	
CURRENT LIABILITIES		
Accounts Payable	4,137,256	2,638,167
Customer Advances	259,482	463,396
Accrued Payroll	43,818	37,312
Accrued Interest Payable	327,083	219,211
Other Payables	145,664	136,549
Revenue Bonds Payable	645,000	615,000
Compensated Absences Payable	111,564	114,407
	<hr/>	
Total Current Liabilities	5,669,867	4,224,042
	<hr/>	
Total Liabilities	23,652,825	21,273,809
	<hr/>	
TOTAL NET POSITION AND LIABILITIES	<u>\$ 66,460,351</u>	<u>\$ 64,022,971</u>

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
ELECTRIC FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
OPERATING REVENUES		
Charges for Services		
Residential	\$ 6,352,793	\$ 6,198,726
Commercial	5,938,217	5,839,330
Industrial	23,129,857	20,908,758
Public Street Lighting	158,503	159,355
Interdepartmental	572,380	522,928
Other Operating Revenue	1,323,979	361,937
Miscellaneous	573,668	317,524
Total Operating Revenues	38,049,397	34,308,558
OPERATING EXPENSES		
Operations		
Purchased Power	25,109,889	25,480,767
Generation	1,800,530	1,374,105
Transmission and Distribution	3,022,175	2,894,764
Customer Accounts	405,034	486,266
Administration and General	2,036,141	1,786,442
Depreciation	2,732,127	2,318,974
Total Operating Expenses	35,105,896	34,341,318
OPERATING INCOME (LOSS)	2,943,501	(32,760)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	28,528	18,980
Interest Expense	(600,948)	(449,323)
Total Non-Operating Revenues (Expenses)	(572,420)	(430,343)
NET INCOME (LOSS) BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS	2,371,081	(463,103)
TRANSFERS		
Transfers to the City	(1,758,391)	(1,562,037)
Total Transfers	(1,758,391)	(1,562,037)
CAPITAL GRANTS AND CONTRIBUTIONS	-	508,504
CHANGE IN NET POSITION	612,690	(1,516,636)
NET POSITION, MAY 1, AS ORIGINALLY STATED	42,749,162	44,265,798
Change in Accounting Principle	(554,326)	-
NET POSITION, MAY 1, RESTATED	42,194,836	44,265,798
NET POSITION, APRIL 30	\$ 42,807,526	\$ 42,749,162

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS
ELECTRIC FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 38,370,746	\$ 33,403,079
Payments to Suppliers	(31,359,446)	(29,682,521)
Payments to Employees	(1,374,636)	(1,323,359)
Payments to Other Funds	(146,045)	(629,433)
	5,490,619	1,767,766
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment from Loans to Other Funds	493,048	466,808
Transfers to the City	(1,758,391)	(1,562,038)
	(1,265,343)	(1,095,230)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Purchased	(5,989,788)	(5,514,310)
Issuance of Long-Term Debt	-	6,578,751
Principal Payments on Long-Term Debt	(645,000)	(590,000)
Interest Payments on Long-Term Debt	(654,382)	(494,502)
Grant Receipts	-	508,504
	(7,289,170)	488,443
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	28,528	16,880
	28,528	16,880
NET INCREASE IN CASH AND CASH EQUIVALENTS	(3,035,366)	1,177,859
CASH AND CASH EQUIVALENTS, MAY 1	17,024,891	15,847,032
CASH AND CASH EQUIVALENTS, APRIL 30	\$ 13,989,525	\$ 17,024,891

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS (Continued)
ELECTRIC FUND

For the Year Ended April 30, 2016
(with comparative totals)

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 2,943,501	\$ (32,760)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities		
Depreciation and Amortization	2,732,127	2,318,974
Changes in Assets and Liabilities		
Accounts Receivable	(395,561)	(335,793)
Other Receivables	552,166	(550,920)
Prepaid Expenses	(269,984)	(92,825)
Inventory	(57,893)	50,504
Deposits	368,658	-
Deferred Outflows - Pension Items - IMRF	(854,501)	-
Accounts Payable	(349,161)	416,693
Customer Advances	(203,914)	(18,767)
Accrued Payroll	6,506	17,087
Other Payables	9,115	(4,733)
Compensated Absences	(2,843)	(1,773)
Net Pension Liability	1,012,403	2,079
	\$ 5,490,619	\$ 1,767,766
NET CASH FROM OPERATING ACTIVITIES		
CASH AND INVESTMENTS		
Cash and Investments	\$ 7,432,456	\$ 6,954,460
Restricted Assets		
Cash and Investments	6,557,069	10,070,431
	\$ 13,989,525	\$ 17,024,891
TOTAL CASH AND INVESTMENTS		

(See independent auditor's report.)

WATER AND WATER RECLAMATION FUND

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION
WATER AND WATER RECLAMATION FUND

April 30, 2016
(with Comparative Totals)

	2016	2015
CAPITAL ASSETS		
Depreciable - Plant in Service	\$ 58,099,381	\$ 56,677,856
Accumulated Depreciation	(28,534,035)	(27,071,954)
Nondepreciable	6,263,548	3,688,065
	35,828,894	33,293,967
CURRENT ASSETS		
Cash and Investments	4,481,422	4,848,344
Receivables		
Accounts	694,383	732,345
Accrued Interest	857	847
Other	143,834	1,013
Prepaid Expenses	38,906	42,167
Due from Other Governments	562,065	-
Inventory	3,480	3,480
Restricted Assets		
Cash and Investments	857,979	6,000
Cash Held at Paying Agent	19,532	19,532
	6,802,458	5,653,728
NONCURRENT ASSETS		
Special Assessments	284,301	313,708
	284,301	313,708
TOTAL ASSETS		
	42,915,653	39,261,403
DEFERRED OUTFLOWS OF RESOURCES		
Pension Items - IMRF	444,880	-
	444,880	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	\$ 43,360,533	\$ 39,261,403

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION (Continued)
WATER AND WATER RECLAMATION FUND

April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
NET POSITION		
Net Investment in Capital Assets	\$ 32,017,238	\$ 32,289,510
Restricted for Debt Service	877,511	25,532
Unrestricted	5,001,642	5,228,251
	<hr/>	<hr/>
Total Net Position	37,896,391	37,543,293
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
IEPA Loans Payable	3,545,537	745,775
Net Pension Liability	823,397	39,936
	<hr/>	<hr/>
Total Long-Term Liabilities	4,368,934	785,711
	<hr/>	<hr/>
CURRENT LIABILITIES		
Accounts Payable	672,162	526,377
Accrued Payroll	17,856	14,822
Accrued Interest Payable	15,451	17,804
Deposits Payable	73,785	67,840
IEPA Loans Payable	266,119	258,699
Compensated Absences Payable	49,835	46,857
	<hr/>	<hr/>
Total Current Liabilities	1,095,208	932,399
	<hr/>	<hr/>
Total Liabilities	5,464,142	1,718,110
	<hr/>	<hr/>
TOTAL NET POSITION AND LIABILITIES	<u>\$ 43,360,533</u>	<u>\$ 39,261,403</u>

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
WATER AND WATER RECLAMATION FUND

For the Year Ended April 30, 2016
(with comparative totals)

	2016	2015
OPERATING REVENUES		
Water		
Charges for Services		
Residential	\$ 881,569	\$ 853,569
Commercial	657,996	612,251
Industrial	720,483	804,779
Rental	72,496	52,065
Other Operating Revenue	52,914	45,009
Miscellaneous	268	1,552
	2,385,726	2,369,225
Total Water		
Water Reclamation		
Charges for Services		
Residential	983,878	1,021,329
Commercial	957,559	976,817
Industrial	591,554	975,467
Other Operating Revenue	131,694	298,867
Miscellaneous	68,267	10,143
	2,732,952	3,282,623
Total Water Reclamation		
Total Operating Revenues		
	5,118,678	5,651,848
OPERATING EXPENSES		
Operations		
Water Source of Supply	298,126	286,817
Water Treatment	179,522	169,432
Transmission, Distribution and Collection	531,829	468,998
Water Reclamation Operations	1,155,572	1,235,223
Administration and General	567,579	531,328
Taxes	66,254	61,693
Depreciation	1,462,081	1,453,445
	4,260,963	4,206,936
Total Operating Expenses		
OPERATING INCOME		
	857,715	1,444,912

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (Continued)
WATER AND WATER RECLAMATION FUND

For the Year Ended April 30, 2016
(with comparative totals)

	<u>2016</u>	<u>2015</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	\$ 10,341	\$ 10,342
Interest Expense	(23,294)	(28,699)
Total Non-Operating Revenues (Expenses)	<u>(12,953)</u>	<u>(18,357)</u>
NET INCOME BEFORE TRANSFERS, CAPITAL GRANTS AND CONTRIBUTIONS	<u>844,762</u>	<u>1,426,555</u>
TRANSFERS		
Transfers (Out)	<u>(226,735)</u>	<u>(221,059)</u>
Total Transfers	<u>(226,735)</u>	<u>(221,059)</u>
CAPITAL GRANTS AND CONTRIBUTIONS	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>618,027</u>	<u>1,205,496</u>
NET POSITION, MAY 1, AS ORIGINALLY STATED	37,543,293	36,337,797
Change in Accounting Principle	<u>(264,929)</u>	-
NET POSITION, MAY 1, RESTATED	<u>37,278,364</u>	<u>36,337,797</u>
NET POSITION, APRIL 30	<u>\$ 37,896,391</u>	<u>\$ 37,543,293</u>

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF CASH FLOWS
WATER AND WATER RECLAMATION FUND**

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 5,049,186	\$ 5,676,245
Payments to Suppliers	(987,620)	(814,953)
Payments to Employees	(1,275,421)	(1,190,091)
Payments to Other Funds	(930,386)	(921,102)
	1,855,759	2,750,099
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to the City	(226,735)	(221,059)
	(226,735)	(221,059)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Purchased	(3,373,769)	(2,233,998)
Issuance of Long-Term Debt	2,503,817	-
Principal Payments on Long-Term Debt	(258,700)	(251,460)
Interest Payments on Long-Term Debt	(25,647)	(32,901)
Grant Receipts	-	491,074
	(1,154,299)	(2,027,285)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	10,331	10,593
	10,331	10,593
NET INCREASE IN CASH AND CASH EQUIVALENTS	485,056	512,348
CASH AND CASH EQUIVALENTS, MAY 1	4,854,344	4,341,996
CASH AND CASH EQUIVALENTS, APRIL 30	\$ 5,339,400	\$ 4,854,344

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS (Continued)
WATER AND WATER RECLAMATION FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
RECONCILIATION OF OPERATING INCOME		
TO NET CASH FLOWS FROM		
OPERATING ACTIVITIES		
Operating Income	\$ 857,715	\$ 1,444,912
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Depreciation and Amortization	1,462,081	1,453,445
Changes in Assets and Liabilities		
Accounts Receivable	37,977	(30,290)
Other Receivables	(142,821)	7,725
Prepaid Expenses	3,262	1,222
Inventory	-	350
Deposits	5,945	-
Special Assessments	29,407	29,395
Deferred Outflows - Pension Items - IMRF	(404,944)	-
Accounts Payable	(477,471)	(184,910)
Accrued Payroll	3,034	7,960
Other Payables	-	17,567
Compensated Absences	2,978	1,886
Net Pension Liability	478,596	837
NET CASH FROM OPERATING ACTIVITIES	\$ 1,855,759	\$ 2,750,099
CASH AND INVESTMENTS		
Cash and Investments	\$ 4,481,422	\$ 4,848,344
Restricted Assets		
Cash and Investments	857,979	6,000
TOTAL CASH AND INVESTMENTS	\$ 5,339,401	\$ 4,854,344
NONCASH TRANSACTIONS		
Illinois EPA Loan Receivable	\$ 562,065	\$ -
Illinois EPA Loan Payable	(562,065)	-
TOTAL NONCASH TRANSACTIONS	\$ -	\$ -

(See independent auditor's report.)

COMMUNICATIONS FUND

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF NET POSITION
COMMUNICATIONS FUND**

April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
CAPITAL ASSETS		
Depreciable - Plant in Service	\$ 3,689,301	\$ 3,629,245
Accumulated Depreciation	(2,859,459)	(2,784,368)
	<hr/>	<hr/>
Net Capital Assets	829,842	844,877
	<hr/>	<hr/>
CURRENT ASSETS		
Receivables		
Accounts	55,976	3,385
Prepaid Expenses	2,715	10,747
	<hr/>	<hr/>
Total Current Assets	58,691	14,132
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES		
Pension items - IMRF	105,619	-
	<hr/>	<hr/>
Total deferred outflows of resources	105,619	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 994,152</u>	<u>\$ 859,009</u>

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION (Continued)
COMMUNICATIONS FUND

April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
NET POSITION		
Net Investment in Capital Assets	\$ 829,842	\$ 844,877
Unrestricted (Deficit)	(1,125,720)	(984,954)
Total Net Position (Deficit)	<u>(295,878)</u>	<u>(140,077)</u>
LONG-TERM LIABILITIES		
Advance from Other Funds	1,069,043	965,067
Net Pension Liability	195,483	12,358
Total Long-Term Liabilities	<u>1,264,526</u>	<u>977,425</u>
CURRENT LIABILITIES		
Accounts Payable	7,373	2,843
Accrued Payroll	2,872	2,979
Deposits Payable	2,738	2,738
Compensated Absences Payable	12,521	13,101
Total Current Liabilities	<u>25,504</u>	<u>21,661</u>
Total Liabilities	<u>1,290,030</u>	<u>999,086</u>
TOTAL NET POSITION AND LIABILITIES	<u>\$ 994,152</u>	<u>\$ 859,009</u>

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
COMMUNICATIONS FUND**

For the Year Ended April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Charges for Services		
Dial-Up Internet Access	\$ 11,750	\$ 12,432
Wireless Internet Access	13,030	26,400
Microwave Circuit	116	-
Network Internet Access	20,396	20,396
Fiber Internet Access	124,228	99,034
Wi-Fi	36	-
Web Site Host	5,851	8,361
Data Services	5,748	5,748
VOIP Services	1,576	43,968
Network Administration Fees	440,847	459,716
Mailboxes	2,272	2,207
Other Operating Revenues	3,061	1,788
	<u>628,911</u>	<u>680,050</u>
OPERATING EXPENSES		
Operations		
Personnel	207,363	230,628
Insurance Benefits	45,810	51,529
Pension Benefits	56,468	44,898
Contractual Services	328,878	406,027
Commodities	10,250	7,611
Depreciation and Amortization	75,091	73,343
	<u>723,860</u>	<u>814,036</u>
OPERATING INCOME (LOSS)	<u>(94,949)</u>	<u>(133,986)</u>

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (Continued)
COMMUNICATIONS FUND**

For the Year Ended April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Expense	\$ (832)	\$ (996)
Total Non-Operating Revenues (Expenses)	<u>(832)</u>	<u>(996)</u>
CHANGE IN NET POSITION	<u>(95,781)</u>	<u>(134,982)</u>
NET POSITION (DEFICIT), MAY 1	(140,077)	(5,095)
Change in Accounting Principle	<u>(60,020)</u>	<u>-</u>
NET POSITION (DEFICIT), MAY 1, RESTATED	<u>(200,097)</u>	<u>(5,095)</u>
NET POSITION (DEFICIT), APRIL 30	<u><u>\$ (295,878)</u></u>	<u><u>\$ (140,077)</u></u>

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF CASH FLOWS
COMMUNICATIONS FUND**

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 135,473	\$ 241,364
Receipts from Interfund Service Transactions	440,847	459,716
Payments to Suppliers	(223,875)	(259,888)
Payments to Employees	(292,842)	(321,672)
Payments to Other Funds	(102,691)	(164,729)
Net Cash from Operating Activities	(43,088)	(45,209)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of Loans from Other Funds	159,115	(524,210)
Repayments of Loans from Other Funds	(55,139)	632,530
Interest Paid on Interfund Loans	(832)	(997)
Net Cash from Noncapital Financing Activities	103,144	107,323
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Purchased	(60,056)	(62,114)
Net Cash from Capital and Related Financing Activities	(60,056)	(62,114)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	-	-
Net Cash from Investing Activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, MAY 1	-	-
CASH AND CASH EQUIVALENTS, APRIL 30	\$ -	\$ -

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS (Continued)
COMMUNICATIONS FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (94,949)	\$ (133,986)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities		
Depreciation and Amortization	75,091	73,344
Changes in Assets and Liabilities		
Accounts Receivable	(52,591)	6,330
Other Receivables	-	14,700
Prepaid Expenses	8,032	(3,663)
Deferred Outflows - Pension Items - IMRF	(93,261)	-
Accounts Payable	4,530	(7,317)
Accrued Payroll	(107)	1,200
Compensated Absences	(580)	3,925
Net Pension Liability	110,747	258
NET CASH FROM OPERATING ACTIVITIES	\$ (43,088)	\$ (45,209)

(See independent auditor's report.)

TECHNOLOGY CENTER FUND

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

**STATEMENT OF NET POSITION
TECHNOLOGY CENTER FUND**

April 30, 2016
(with Comparative Totals)

	<u>2016</u>	<u>2015</u>
CAPITAL ASSETS		
Depreciable - Plant in Service	\$ 5,431,981	\$ 5,240,599
Accumulated Depreciation	(1,121,346)	(977,214)
Nondepreciable	<u>519,453</u>	<u>519,453</u>
Net Capital Assets	<u>4,830,088</u>	<u>4,782,838</u>
CURRENT ASSETS		
Cash and Investments	95,017	206,070
Receivables		
Accounts	<u>92,328</u>	<u>29,424</u>
Total Current Assets	<u>187,345</u>	<u>235,494</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension items - IMRF	<u>60,811</u>	-
Total Deferred Outflows of Resources	<u>60,811</u>	-
TOTAL ASSETS	<u><u>\$ 5,078,244</u></u>	<u><u>\$ 5,018,332</u></u>

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF NET POSITION (Continued)
TECHNOLOGY CENTER FUND

April 30, 2016
(with Comparative Totals)

	2016	2015
NET POSITION		
Net Investment in Capital Assets	\$ 1,125,088	\$ 867,838
Unrestricted (Deficit)	(360,866)	(323,120)
	764,222	544,718
LONG-TERM LIABILITIES		
Advance from Other Funds	355,096	404,338
Net Pension Liability	112,551	5,271
Long-Term Debt, Net of Current Maturities		
General Obligation Debt Payable	3,485,000	3,705,000
	3,952,647	4,114,609
CURRENT LIABILITIES		
Accounts Payable	923	1,106
Accrued Payroll	2,928	2,795
Compensated Absences Payable	5,688	5,795
Accrued Interest Payable	131,836	139,309
General Obligation Debt Payable	220,000	210,000
	361,375	359,005
Total Current Liabilities	361,375	359,005
Total Liabilities	4,314,022	4,473,614
TOTAL NET POSITION AND LIABILITIES	\$ 5,078,244	\$ 5,018,332

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
TECHNOLOGY CENTER FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
OPERATING REVENUES		
Charges for Services		
Telecommunications Leases	\$ 54,126	\$ 59,688
Commercial Fiber Leases	443,125	420,787
Commercial Colocation Leases	602,198	601,980
Internal Colocation Leases	81,680	131,679
Penalties	4,842	7,291
Miscellaneous	-	137,809
Total Operating Revenues	1,185,971	1,359,234
OPERATING EXPENSES		
Operations		
Personnel	189,189	171,928
Contractual Services	139,669	158,865
Commodities	295,450	230,643
Depreciation and Amortization	144,132	143,151
Total Operating Expenses	768,440	704,587
OPERATING INCOME	417,531	654,647
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	335	172
Interest Expense	(161,961)	(171,004)
Total Non-Operating Revenues (Expenses)	(161,626)	(170,832)
CHANGE IN NET POSITION	255,905	483,815
NET POSITION, MAY 1	544,718	60,903
Change in Accounting Principle	(36,401)	-
NET POSITION, MAY 1, RESTATED	508,317	60,903
NET POSITION, APRIL 30	\$ 764,222	\$ 544,718

(See independent auditor's report.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS
TECHNOLOGY CENTER FUND

For the Year Ended April 30, 2016
(with Comparative Totals)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 1,041,387	\$ 1,067,805
Receipts from Interfund Service Transactions	81,680	131,679
Receipts from Other Sources	-	137,809
Payments to Suppliers	(146,268)	(167,579)
Payments to Employees	(179,096)	(169,175)
Payments to Other Funds	(289,034)	(226,477)
	508,669	774,062
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of Loans from Other Funds	(49,242)	(399,095)
Interest Paid on Interfund Loans	(2,263)	(2,410)
	(51,505)	(401,505)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Purchased	(191,381)	(65,489)
Principal Payments on Long-Term Debt	(210,000)	(200,000)
Interest Payments on Long-Term Debt	(167,171)	(175,710)
	(568,552)	(441,199)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	335	172
	335	172
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(111,053)	(68,470)
CASH AND CASH EQUIVALENTS, MAY 1	206,070	274,540
CASH AND CASH EQUIVALENTS, APRIL 30	\$ 95,017	\$ 206,070

(This statement is continued on the following page.)

**ROCHELLE MUNICIPAL UTILITIES
ROCHELLE, ILLINOIS**

STATEMENT OF CASH FLOWS (Continued)
TECHNOLOGY CENTER FUND

For the Year Ended April 30, 2016
(with comparative totals)

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income	\$ 417,531	\$ 654,647
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Depreciation and Amortization	144,132	143,151
Changes in Assets and Liabilities		
Accounts Receivable	(62,904)	(21,941)
Deferred Outflow - Pension Items - IMRF	(55,541)	-
Accounts Payable	(183)	(4,548)
Accrued Payroll	133	1,179
Compensated Absences	(107)	1,464
Net Pension Liability	65,608	110
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NET CASH FROM OPERATING ACTIVITIES	\$ 508,669	\$ 774,062
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CASH AND INVESTMENTS		
Cash and Investments	\$ 95,017	\$ 206,070
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(See independent auditor's report.)