

Final Official Statement Dated July 18, 2013

Interest on the 2013A Bonds is includible in gross income of the owners thereof for federal income tax purposes. Interest on the 2013A Bonds is not exempt from present State of Illinois income taxes. See "TAX TREATMENT – The 2013A Bonds" herein for a more complete discussion.

Subject to compliance by the City with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the 2013B Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. See "TAX EXEMPTION – THE 2013B BONDS" herein for a more complete discussion. The 2013B Bonds are "qualified tax-exempt obligations" under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "QUALIFIED TAX-EXEMPT OBLIGATIONS – THE 2013B BONDS" herein.



CITY OF KANKAKEE Kankakee County, Illinois **\$2,170,000 Taxable Sewer Revenue Bonds, Series 2013A** **\$3,550,000 Sewer Revenue Refunding Bonds, Series 2013B**

Dated Date of Delivery

Book-Entry

Due As Detailed Herein

The \$2,170,000 Taxable Sewer Revenue Bonds, Series 2013A (the "2013A Bonds"), and the \$3,550,000 Sewer Revenue Refunding Bonds, Series 2013B (the "2013B Bonds", and, together with the 2013A Bonds, the "Bonds"), are being issued by the City of Kankakee, Kankakee County, Illinois (the "City"). Interest on the Bonds is payable semiannually on May 1 and November 1, commencing May 1, 2014. The Bonds will be issued using a book-entry system. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity will be registered in the name of Cede & Co., as nominee for DTC and no physical delivery of Bonds will be made to purchasers. Interest is calculated based on a 360-day year of twelve 30-day months. The Bonds will mature on May 1 as detailed herein.

OPTIONAL REDEMPTION

The 2013A Bonds are not subject to redemption prior to maturity.

The 2013B Bonds are callable in whole or in part on any date on or after May 1, 2023, at a price of par and accrued interest. If less than all the 2013B Bonds are called, they shall be redeemed in such principal amounts and from such maturities as determined by the City and within any maturity by lot. See "DESCRIPTION OF THE BONDS – Optional Redemption - The 2013B Bonds" herein.

REDEMPTION

The 2013A Bonds are subject to mandatory redemption. See "MANDATORY REDEMPTION - The 2013A Bonds"

The 2013B Bonds are subject to mandatory redemption. See "MANDATORY REDEMPTION - The 2013B Bonds"

PURPOSE, LEGALITY AND SECURITY

The 2013A Bonds are being issued to pay capitalized interest on the Bonds for the period through May 1, 2016; to pay back a loan that the City's Water Fund took out from the City's General Fund; to provide funds for deposit to the debt service reserve account in accordance with the ordinance authorizing the 2013A Bonds (the "Bond Ordinance"); and to pay the costs of issuing the 2013A Bonds. See "THE PURPOSE – The 2013A BONDS" herein.

The 2013B Bonds are being issued to advance refund a portion of the City's outstanding General Obligation Bonds, Series 2007A (the "2007A Bonds"); to advance refund a portion of the City's outstanding General Obligation Refunding Bonds, Series 2009B (the "2009B Bonds"); to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance; and to pay the costs of issuing the 2013B Bonds. See "PLAN OF FINANCING – The 2013B BONDS" and "THE PURPOSE – The 2013B Bonds" herein.

The Bonds are limited obligations of the City and are payable, ratably and equally, with the City's outstanding Taxable Sewer Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), Taxable Sewer Revenue Bonds, Series 2010A (Recovery Zone Economic Development Bonds-Direct Pay) (the "Series 2010A Bonds"), and Sewer Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds" and, together with the Series 2009 Bonds and the Series 2010A Bonds, the "Prior Bonds"), from certain net revenues of the combined waterworks and sewerage system of the City.

THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AS TO INDEBTEDNESS. NO HOLDER SHALL HAVE THE RIGHT TO COMPEL THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE TO LEVY ANY AD VALOREM TAXES TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the Bonds will be made available for delivery on or about August 6, 2013.



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No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than as contained in the Official Statement or the Final Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. Certain information contained in the Official Statement and the Final Official Statement may have been obtained from sources other than records of the City and, while believed to be reliable, is not guaranteed as to completeness. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT OR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE RESPECTIVE DATES THEREOF.

References herein to laws, rules, regulations, ordinances, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Official Statement or the Final Official Statement, they will be furnished on request. This Official Statement does not constitute an offer to sell, or solicitation of an offer to buy, any securities to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful.

BOND ISSUE SUMMARY

This Bond Issue Summary is expressly qualified by the entire Final Official Statement and is provided for the convenience of potential investors and which should be reviewed in their entirety by potential investors.

Issuer:	The City of Kankakee, Kankakee County, Illinois.
Dated Date:	Date of delivery, which is expected to be on or about August 6, 2013.
Interest Due:	Each May 1 and November 1, commencing May 1, 2014.
Authorization:	Pursuant to the home rule powers of the City and by vote of the City Council.
Security:	The Bonds are limited obligations of the City and are payable, ratably and equally, with the City's outstanding Taxable Sewer Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), Taxable Sewer Revenue Bonds, Series 2010A (Recovery Zone Economic Development Bonds-Direct Pay) (the "Series 2010A Bonds"), and Sewer Revenue Refunding Bonds, Series 2010B (the "Series 2010B Bonds" and, together with the Series 2009 Bonds and the Series 2010A Bonds, the "Prior Bonds"), from certain net revenues of the combined waterworks and sewerage system of the City.
Credit Rating:	The Bonds are rated "A/Stable" from Standard & Poor's, a Division of the McGraw-Hill Companies.
Book-Entry Form:	The Bonds will be registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Bonds. See APPENDIX B herein.
Denomination:	\$5,000 or integral multiples thereof.
Underwriter:	PNC Capital Markets LLC, Chicago, Illinois.
Financial Advisor:	Speer Financial, Inc., Chicago, Illinois.

The 2013A Bonds

Issue: \$2,170,000 Taxable Sewer Revenue Bonds, Series 2013A.

Principal Due: Serial Bonds due May 1, 2017-2018 and term Bonds due May 1, 2020, May 1, 2023 and May 1, 2025, as detailed below.

No Optional Redemption: The 2013A Bonds are not subject to redemption prior to maturity.

Mandatory Redemption: The 2013A Bonds are subject to mandatory redemption. See “**MANDATORY REDEMPTION - The 2013A Bonds**” herein.

Purpose: The 2013A Bonds are being issued to pay capitalized interest on the Bonds for the period through May 1, 2016; to pay back a loan that the City’s Water Fund took out from the City’s General Fund; to provide funds for deposit to the debt service reserve account in accordance with the ordinance authorizing the 2013A Bonds (the “Bond Ordinance”); and to pay the costs of issuing the 2013A Bonds. See “**THE PURPOSE –The 2013A BONDS**” herein.

Tax Treatment: Interest on the 2013A Bonds is includible in gross income of the owners thereof for federal income tax purposes. Interest on the 2013A Bonds is **not** exempt from present State of Illinois income taxes. See “**TAX TREATMENT – THE 2013A BONDS**” herein for a more complete discussion.

Bond Registrar/Paying Agent: The City Comptroller, City of Kankakee, Illinois.

AMOUNTS, MATURITIES, INTEREST RATES, PRICES OR YIELDS AND CUSIP NUMBERS

<u>Principal Amount</u>	<u>Due May 1</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Number</u>	<u>Principal Amount</u>	<u>Due May 1</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>CUSIP Number</u>
\$215,000	..... 2017	2.910%	2.910%	484458 FF6	\$220,000	..... 2018	3.110%	3.110%	484458 FG4
\$465,000	.....	3.830%	Term Bonds due May 1, 2020; Yield.....				3.830%		CUSIP Number 484458 FJ8
\$775,000	.....	4.780%	Term Bonds due May 1, 2023; Yield.....				4.780%		484458 FM1
\$495,000	.....	5.130%	Term Bonds due May 1, 2025; Yield.....				5.130%		484458 FP4

For further details see “**MANDATORY REDEMPTION – The 2013A Bonds**” herein.

The 2013B Bonds

- Issue:** \$3,550,000 Sewer Revenue Refunding Bonds, Series 2013B.
- Principal Due:** Term Bonds due May 1, 2028, May 1, 2031 and May 1, 2034, as detailed below.
- Optional Redemption:** The 2013B Bonds are callable in whole or in part on any date on or after May 1, 2023, at a price of par and accrued interest. If less than all the 2013B Bonds are called, they shall be redeemed in such principal amounts and from such maturities as determined by the City and within any maturity by lot. See **“DESCRIPTION OF THE BONDS – Optional Redemption - The 2013B Bonds”** herein.
- Mandatory Redemption:** The 2013B Bonds are subject to mandatory redemption. See **“MANDATORY REDEMPTION - The 2013B Bonds”** herein.
- Purpose:** The 2013B Bonds are being issued to advance refund a portion of the City’s outstanding General Obligation Bonds, Series 2007A (the “2007A Bonds”); to advance refund a portion of the City’s outstanding General Obligation Refunding Bonds, Series 2009B (the “2009B Bonds”); to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance; and to pay the costs of issuing the 2013B Bonds. See **“PLAN OF FINANCING – The 2013B BONDS”** and **“THE PURPOSE – The 2013B Bonds”** herein.
- Tax Exemption:** Chapman and Cutler LLP, Chicago, Illinois, will provide an opinion as to the tax exemption of the 2013B Bonds as discussed under **“TAX EXEMPTION – THE 2013B BONDS”** in this Final Official Statement. Interest on the 2013B Bonds is not exempt from present State of Illinois income taxes.
- Bank Qualification:** The 2013B Bonds are “qualified tax-exempt obligations” under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See **“QUALIFIED TAX-EXEMPT OBLIGATIONS – THE 2013B BONDS”** herein.
- Bond Registrar/Paying Agent:** The City Comptroller, City of Kankakee, Illinois.
- Escrow Trustee:** U.S. Bank National Association, Chicago, Illinois.
- Verification Agent:** Dunbar Breitweiser & Company, LLP, Bloomington, Illinois.

AMOUNTS, MATURITIES, INTEREST RATES, PRICES OR YIELDS AND CUSIP NUMBERS

				CUSIP Number
\$1,090,000	.....	4.375%	Term Bonds due May 1, 2028; Yield.....	4.500%
\$1,145,000	.....	4.625%	Term Bonds due May 1, 2031; Yield.....	4.800%
\$1,315,000	.....	4.875%	Term Bonds due May 1, 2034; Yield.....	4.970%
				484458 FT6
				484458 FW9
				484458 FZ2

For further details see **“MANDATORY REDEMPTION – The 2013B Bonds”** herein.

THE CITY OF KANKAKEE
Kankakee County, Illinois

Nina Epstein
Mayor

Aldermen

Dennis Baron
P. Carl Brown
James R. Cox
Christopher Curtis
Glenn E. Davidson

James Faford
Stacy Gall
Stephen R. Linneman
Larry A. Osenga

James H. Stokes, Jr.
Danita Grant Swanson
Tyler D. Tall, Sr.
Fred Tetter
Dexter Thompson

Officials

Anjanita Dumas
City Clerk

James A. Spice
Comptroller

L. Patrick Power
City Treasurer

Christopher W. Bohlen
Corporation Counsel

INTRODUCTION

The Bonds were authorized and are being issued by the City of Kankakee, Kankakee County, Illinois (the “City”) pursuant to its power as a home rule unit of local government under Section 6 of Article VII of the 1970 Illinois Constitution (the “Act”) and the Bond Ordinance. The 2013A Bonds are being issued to pay capitalized interest on the Bonds for the period through May 1, 2016; to pay back a loan that the City’s Water Fund took out from the City’s General Fund; to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance; and to pay the costs of issuing the 2013A Bonds. The 2013B Bonds are being issued to advance refund a portion of the City’s outstanding General Obligation Bonds, Series 2007A (the “2007A Bonds”); to advance refund a portion of the City’s outstanding General Obligation Refunding Bonds, Series 2009B (the “2009B Bonds”); to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance; and to pay the costs of issuing the 2013B Bonds.

The City is required under the Bond Ordinance to maintain ownership of the water and sewer system of the City (the “System”). The Net Revenues of the System are pledged to pay principal of and interest on the Bonds, ratably and equally with the Prior Bonds. “Net Revenues” is defined in the Bond Ordinance to mean that portion of the Revenues remaining after providing sufficient funds for Operation and Maintenance Costs (including all amounts payable by the City to the Agency under the Intergovernmental Agreement; see “**THE AGENCY AND THE CITY’S PAYMENT OBLIGATIONS TO THE AGENCY**” herein).

Principal of, redemption premium, if any, and interest on the Bonds are payable solely from Net Revenues of the System (which are those System revenues remaining after payment of costs of operation and maintenance of the System, including amounts due to the Agency under the Intergovernmental Agreement), and from amounts on deposit from time to time in the accounts in the Revenue Fund heretofore established and expressly continued pursuant to the Bond Ordinance, on a parity with the Prior Bonds and any other parity bonds which may be issued in the future in compliance with the conditions specified in the Bond Ordinance. The Bonds are further secured by a debt service reserve fund in the Revenue Fund.

The Bonds do not constitute an indebtedness of the City, the State of Illinois, or any other political subdivision of the State within the meaning of any constitutional or statutory provision or limitation. Neither the registered owners of the Bonds (the "Registered Owners") nor the beneficial owners of the Bonds (as defined below, the "Beneficial Owners") have the power to compel any exercise of the taxing powers of the City, the State of Illinois, or any of its other political subdivisions to provide for the payment of principal of redemption premium, if any, or interest on the Bonds.

The City has covenanted in the Bond Ordinance, among other things, to establish and maintain at all times, reasonable fees, charges and rates for the use and service of the System, sufficient at all times (i) to pay Operation and Maintenance Costs (including all amounts payable by it to the Agency under the Intergovernmental Agreement; see "**THE AGENCY AND THE CITY'S PAYMENT OBLIGATIONS TO THE AGENCY**" herein), (ii) to pay the principal of and interest on all revenue bonds of the City (including the Bonds and the Prior Bonds) which by their terms are payable solely from the Revenues, (iii) to provide Net Revenues in each Fiscal Year (in excess of the amounts required by clause (ii) above) in the amount of not less than 20% of the Current Debt Service Requirement (as defined below) for all Bonds and Prior Bonds for such Fiscal Year, and (iv) to provide for the creation and maintenance of the respective accounts established by the Bond Ordinance in the Revenue Fund, including an adequate depreciation fund. See "**SECURITY FOR THE BONDS - Rate Covenant, Flow of Funds and Additional Bonds.**"

This Final Official Statement should be considered in its entirety and no one factor should be considered more or less important than any other by reason of its position in the Final Official Statement. There follow in this Final Official Statement brief descriptions of the Bonds, the Bond Ordinance, the City and its System and certain other bond documents. Such descriptions do not purport to be comprehensive or definitive. Where statutes, ordinances, reports or other documents are referred to in this Final Official Statement, reference should be made to such statutes, reports or other documents for more complete information regarding the rights and obligations of parties to them, facts and opinions contained in them and their subject matter.

DESCRIPTION OF THE BONDS

General

The Bonds initially will be dated the date of delivery (the "Dated Date"), expected to be on or about August 6, 2013. The Bonds will bear interest from the Dated Date, or from the most recent payment date to which interest has been paid or duly provided for, until the principal amount of the Bonds is paid. Interest is payable semi-annually on May 1 and November 1 of each year with the first interest payment date being May 1, 2014. The Bonds will bear interest at the rates per year, and will mature in the principal amounts on May 1 in each year, as set forth on the cover page of this Final Official Statement. The Bonds are subject to redemption, including mandatory sinking fund redemption, prior to maturity as provided below.

The Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple of that amount. Interest on each Bond will be payable on each interest payment date to the person in whose name the Bond is registered in the Bond Register kept by the City Comptroller, as Bond Registrar, at the close of business on the 15th day (whether or not a business day) of the calendar month preceding such interest payment date. So long as the Bonds are held in the book-entry only system described below, interest on each Bond shall be paid to DTC (or its successor as depository) by check or draft or electronic funds transfer as may be agreed by the Agency and DTC (or its successor as depository). If the Bonds become available in physical form to registered owners other than DTC, interest will be paid by check or draft mailed to such registered owner at the owner's address as it appears in the Bond Register. Principal of and redemption premium, if any, on the Bonds will be paid only upon presentation and surrender of the Bonds for cancellation at the office of the Bond Registrar in Kankakee, Illinois.

No Optional Redemption – The 2013A Bonds

The 2013A Bonds are not subject to redemption prior to maturity.

Optional Redemption – The 2013B Bonds

The 2013B Bonds are callable in whole or in part on any date on or after May 1, 2023, at a price of par and accrued interest. If less than all the 2013B Bonds are called, they shall be redeemed in such principal amounts and from such maturities as determined by the City and within any maturity by lot.

Unless waived by the Registered Owner of the 2013B Bonds to be redeemed, notice of redemption of the 2013B Bonds will be given by mailing the redemption notice by first class mail, postage prepaid, at least 30 days, but not more than 60 days, prior to the date fixed for redemption, to each Registered Owner of 2013B Bonds to be redeemed at the Registered Owner's address as shown on the 2013B Bond Register or at such other address as is furnished in writing by a Registered Owner to the 2013B Bond Registrar. Notice of redemption will specify the date fixed for redemption, the redemption price, the place where the 2013B Bonds subject to redemption are to be surrendered (which shall be the office of the 2013B Bond Registrar in Kankakee, Illinois) and, if less than all of the 2013B Bonds of a single maturity of a series are to be redeemed, the identification (and, in the case of a partial redemption of any 2013B Bonds of a series, the respective principal amounts) of the 2013B Bonds of such series to be redeemed. If notice is given as described above, the 2013B Bonds or portions of 2013B Bonds so called for redemption will, on the redemption date, become due and payable at the applicable redemption price described above and, unless the City defaults in the payment of the redemption price, such 2013B Bonds or portions of 2013B Bonds will cease to bear interest. Failure to give such notice by mail or a defect in the notice or mailing as to any 2013B Bond will not affect the sufficiency of such notice with respect to other 2013B Bonds.

The Bond Registrar will give notice of redemption, identifying the 2013B Bonds (or portions thereof) to be redeemed, by mailing a copy of the redemption notice by first class mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each 2013B Bond (or portion thereof) to be redeemed at the address shown on the registration books maintained by the 2013B Bond Registrar as described in the preceding paragraph. Unless moneys sufficient to pay the redemption price of the 2013B Bonds to be redeemed are received by the 2013B Bond Registrar prior to the giving of such notice of redemption, such notice may, at the option of the City, state that said redemption will be conditional upon the receipt of such moneys by the 2013B Bond Registrar on or prior to the date fixed for redemption. If such moneys are not received, such notice will be of no force and effect, the City will not redeem such 2013B Bonds, and the 2013B Bond Registrar will give notice, in the same manner in which the notice of redemption has been given, that such moneys were not so received and that such 2013B Bonds will not be redeemed. Otherwise, prior to any redemption date, the City will deposit with the 2013B Bond Registrar an amount of money sufficient to pay the redemption price of all the 2013B Bonds or portions of 2013B Bonds which are to be redeemed on the date.

Subject to the provisions for a conditional redemption described above, notice of redemption having been given as described above and in the 2013B Bond Ordinance, the 2013B Bonds or portions of 2013B Bonds so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such 2013B Bonds or portions of 2013B Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such 2013B Bonds will be paid by the 2013B Bond Registrar at the redemption price.

In the event of a partial redemption of 2013B Bonds of a given maturity, (i) the particular 2013B Bonds or portion of 2013B Bonds to be redeemed shall be selected by lot not more than 60 days prior to the redemption date by the 2013B Bond Registrar, and (ii) the Registered Owner of a 2013B Bond redeemed in part will receive a new 2013B Bond or 2013B Bonds in authorized denominations of the same maturity and rate of interest in the amount of the unpaid principal.

So long as the 2013B Bonds are held in the book-entry only system described herein, all notices of redemption will be sent only to DTC with a request that DTC forward (or cause to be forwarded) the notices to DTC participants (the "Participants") so that such Participants may forward (or cause to be forwarded) the notices to Beneficial Owners of the 2013B Bonds. The term "Beneficial Owner" means the person for whom the Participant acquires an interest in the 2013B Bonds.

MANDATORY REDEMPTION – The 2013A Bonds

The 2013A Bonds maturing on May 1, 2020, are subject to mandatory redemption, in part by lot, on May 1, 2019, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2019.....	\$230,000

The final principal amount of the 2013A Bonds maturing on May 1, 2020, is \$235,000.

The 2013A Bonds maturing on May 1, 2023, are subject to mandatory redemption, in part by lot, on May 1, 2021-2022, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2021.....	\$245,000
2022.....	260,000

The final principal amount of the 2013A Bonds maturing on May 1, 2023, is \$270,000.

The 2013A Bonds maturing on May 1, 2025, are subject to mandatory redemption, in part by lot, on May 1, 2024, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2024.....	\$285,000

The final principal amount of the 2013A Bonds maturing on May 1, 2025, is \$210,000.

All of the 2013A Bonds subject to mandatory sinking fund redemption shall be redeemed at a redemption price equal to the principal amount thereof to be redeemed. The 2013A Bond Registrar is authorized and directed to mail notice of mandatory sinking fund redemption of the 2013A Bonds in the manner provided in the 2013A Bond Ordinance.

Whenever the 2013A Bonds subject to mandatory sinking fund redemption are redeemed at the option of the City, the principal amount thereof so redeemed shall be credited against the unsatisfied balance of further sinking fund installments or final maturity amount established with respect to such 2013A Bonds, in such amount and against such installments or final maturity amount as shall be determined by the City in the proceedings authorizing such optional redemption or, in the absence of such determination, shall be credited against the unsatisfied balance of the applicable sinking fund installments next ensuing, and with respect to which notice of redemption has not yet been given.

The Registrar will give notice of redemption, identifying the 2013A Bonds (or portions thereof) to be redeemed, by mailing a copy of the redemption notice by first class mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each 2013A Bond (or portion thereof) to be redeemed at the address shown on the registration books maintained by the Registrar. Failure to give such notice by mail to any registered owner of the 2013A Bonds (or portion thereof) or any defect therein shall not affect the validity of any proceedings for the redemption of other 2013A Bonds (or portions thereof). All 2013A Bonds (or portions thereof) so called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment at that time.

MANDATORY REDEMPTION – The 2013B Bonds

The 2013B Bonds maturing on May 1, 2028, are subject to mandatory redemption, in part by lot, on May 1, 2025-2027, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2025.....	\$ 95,000
2026.....	320,000
2027.....	330,000

The final principal amount of the 2013B Bonds maturing on May 1, 2028, is \$345,000.

The 2013B Bonds maturing on May 1, 2031, are subject to mandatory redemption, in part by lot, on May 1, 2029-2030, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2029.....	\$365,000
2030.....	380,000

The final principal amount of the 2013B Bonds maturing on May 1, 2031, is \$400,000.

The 2013B Bonds maturing on May 1, 2034, are subject to mandatory redemption, in part by lot, on May 1, 2032-2033, consisting of sinking fund payments at redemption prices equal to the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2032.....	\$415,000
2033.....	440,000

The final principal amount of the 2013B Bonds maturing on May 1, 2034, is \$460,000.

All of the 2013B Bonds subject to mandatory sinking fund redemption shall be redeemed at a redemption price equal to the principal amount thereof to be redeemed. The 2013B Bond Registrar is authorized and directed to mail notice of mandatory sinking fund redemption of the 2013B Bonds in the manner provided in the 2013B Bond Ordinance.

Whenever the 2013B Bonds subject to mandatory sinking fund redemption are redeemed at the option of the City, the principal amount thereof so redeemed shall be credited against the unsatisfied balance of further sinking fund installments or final maturity amount established with respect to such 2013B Bonds, in such amount and against such installments or final maturity amount as shall be determined by the City in the proceedings authorizing such optional redemption or, in the absence of such determination, shall be credited against the unsatisfied balance of the applicable sinking fund installments next ensuing, and with respect to which notice of redemption has not yet been given.

The Registrar will give notice of redemption, identifying the 2013B Bonds (or portions thereof) to be redeemed, by mailing a copy of the redemption notice by first class mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each 2013B Bond (or portion thereof) to be redeemed at the address shown on the registration books maintained by the Registrar. Failure to give such notice by mail to any registered owner of the 2013B Bonds (or portion thereof) or any defect therein shall not affect the validity of any proceedings for the redemption of other 2013B Bonds (or portions thereof). All 2013B Bonds (or portions thereof) so called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment at that time.

SECURITY FOR THE BONDS

General

The Bonds will be on a parity with the Prior Bonds and any Parity Bonds (as defined in the Bond Ordinance) issued after the issuance of the Bonds. See “**Additional Bonds**” below. The Bonds, the Prior Bonds and any Parity Bonds will be co-equal as to the lien on and pledge of the Net Revenues for their payment and will share ratably, without any preference, priority, or distinction one over another, as to the source or method of payment or the security for such bonds.

The Bonds, the Prior Bonds and any Parity Bonds will be limited obligations of the City having a claim for payment of principal, redemption premium, if any, and interest solely from and are equally and ratably secured by a lien on and security interest in the Net Revenues derived by the City from its ownership and operation of the System, including operating revenues received from the operation of the System, and from moneys on deposit in the several accounts in the Revenue Fund securing the Bonds. “Net Revenues” is defined in the Bond Ordinance to mean that portion of the Revenues remaining after providing sufficient funds for Operation and Maintenance Costs (including all amounts payable by the City to the Agency under the Intergovernmental Agreement. See “**THE AGENCY AND THE CITY’S PAYMENT OBLIGATIONS TO THE AGENCY**” herein.) See “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE**” herein for the definitions of “Revenues,” “Net Revenues” and “System,” each as used in the Bond Ordinance.

The Bonds and the Prior Bonds do not, and any Parity Bonds will not, constitute an indebtedness of the City within the meaning of any constitutional or statutory provision or limitation as to indebtedness. No holder or registered owner of Bonds shall have the right to compel the City to levy ad valorem taxes on any property to pay the principal of, premium, if any, or interest on the Bonds, the Prior Bonds or any Parity Bonds.

The City is a member of the Kankakee River Metropolitan Agency (the “Agency”). The Agency is a municipal corporation and a body corporate and politic of the State of Illinois and was formed in 1996 pursuant to the terms of an Intergovernmental Agreement dated May 1, 1996, as amended and restated on March 1, 1999 (the “Intergovernmental Agreement”), entered into by and among the City and the Villages of Aroma Park, Bourbonnais and Bradley, Illinois (together, the “Villages” and, collectively with the City, the “Members”). In 1999, the Agency issued its \$18,585,000 aggregate principal amount Sewage Treatment Facility Revenue Bonds, Series 1999 (the “Agency Bonds”) in order to finance the acquisition, construction and equipping of the regional wastewater treatment facility (the “Facility”) serving the City and certain other municipalities. The Agency Bonds are secured by the payment obligations of each of the Members, including the City, under the Intergovernmental Agreement. The Agency sets rates and charges for use of the Facility that will produce revenues sufficient to pay the operation and maintenance costs of the Agency, to pay debt service on the Agency Bonds, to provide an adequate depreciation fund, to provide for a debt service reserve account securing the Agency's bonds and for certain other purposes. Under the terms of the Intergovernmental Agreement, each member, including the City, covenanted (a) to treat its payment obligations to the Agency as an operation and maintenance expense of its municipal sewer system, including, in the case of the City, the System, and (b) not to pledge the revenues derived from the operation of its municipal sewer system to any obligations senior to, or on a parity with, its obligations to make payments required under the Intergovernmental Agreement. In effect, therefore, the City's payment obligations to the Agency have a lien on the Revenues senior to the lien of the Bonds. See “**THE AGENCY AND THE CITY'S PAYMENT OBLIGATIONS TO THE AGENCY**” herein.

Flow of Funds

The Bond Ordinance continues the existing Waterworks and Sewerage Fund of the City of Kankakee (the “Revenue Fund”) into which the Bond Ordinance requires all Revenues to be deposited as collected. The Revenue Fund includes the various accounts listed below. Under the Bond Ordinance, the Revenue Fund is irrevocably pledged to the owners of Outstanding bonds payable from revenues of the System (which include the Bonds, the Prior Bonds and any Parity Bonds that are outstanding and unpaid) for the purpose of carrying out the City's covenants under the Bond Ordinance and any Bond Ordinance hereinafter adopted authorizing the issuance of Parity Bonds. The Revenue Fund is a trust fund from which moneys on deposit may be used only to pay Operation and Maintenance Costs (including all amounts payable by the City to the Agency under the Intergovernmental Agreement. See “**THE AGENCY AND THE CITY'S PAYMENT OBLIGATIONS TO THE AGENCY**” herein), to provide an adequate depreciation fund, to pay principal of and interest on revenue bonds of the City which by their terms are payable solely from Revenues, to provide for a debt service reserve account, and otherwise to establish and make permitted expenditures from the accounts in the Revenue Fund described below.

The Bond Ordinance continues the following accounts (each an “Account”) in the Revenue Fund: (1) the Operation and Maintenance Account, (2) the Bond and Interest Account, (3) the Bond Reserve Account, (4) the Reserve and Replacement Account, and (5) the Surplus Account.

The Bond Ordinance requires the City, on or before a given day of each month selected by the City, to credit all moneys held in the Revenue Fund to the accounts in the Revenue Fund in the following order in accordance with the provisions summarized below:

(a) Operation and Maintenance Account:

There shall be credited to the Operation and Maintenance Account an amount sufficient, when added to the amount then on deposit in that Account, to pay Operation and Maintenance Costs of the System for the current month. Under the terms of the Intergovernmental Agreement, the City has covenanted and agreed to treat its payment obligation to the Agency as an Operations and Maintenance Cost of its System. See “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE**” – “**Operation and Maintenance Cost**” and “**THE AGENCY AND THE CITY'S PAYMENT OBLIGATION TO THE AGENCY**” herein.

(b) Bond and Interest Account:

There shall next be credited to the Bond and Interest Account and held, in cash and investments, a fractional amount of the interest becoming due on the next succeeding interest payment date on all Outstanding Bonds and also a fractional amount of the principal becoming due or subject to mandatory redemption on the next succeeding principal maturity or mandatory redemption date on all Outstanding Bonds until there shall have been accumulated and held, in cash and investments, in the Bond and Interest Account on or before the month next preceding such interest payment date or date of maturity or mandatory redemption of principal, an amount sufficient to pay such interest or principal, or both.

In computing the fractional amount to be set aside each month in the Bond and Interest Account, the fraction is required to be computed so that a sufficient amount will be set aside in that Account and will be available for the prompt payment of such principal of and interest on all Outstanding Bonds and may not be less than one-sixth of the interest becoming due on the next succeeding interest payment date and not less than one-twelfth of the principal becoming due or subject to mandatory redemption on the next succeeding principal payment or mandatory redemption date on all Outstanding Bonds until there is sufficient money in the Bond and Interest Account to pay such principal or interest, or both.

Credits to the Bond and Interest Account may be suspended in any Fiscal Year at such time as there is held in that Account, in cash and investments, an amount sufficient to pay principal and interest requirements due on the Outstanding Bonds for the balance of such Fiscal Year, but such payments shall again be resumed at the beginning of the next Fiscal Year. All monies in such Account shall be used only for the purpose of paying interest and principal on Outstanding Bonds as the same shall become due.

(c) Bond Reserve Account:

At the time of delivery of the Bonds, there shall be credited to the Bond Reserve Account a sum sufficient to establish to the credit thereof and on deposit therein an amount equal to Maximum Annual Debt Service.

At any time that the amount on deposit in and to the credit of the Bond Reserve Account is less than an amount equal to Maximum Annual Debt Service, whether by withdrawal or investment loss, or otherwise, the City covenants to replenish the Bond Reserve Account by credits to such Account in each month at the rate of 1/12th of the amount of such difference per month or in the amount of \$5,000 per month, whichever is greater, until the amount on deposit in and to the credit of the Bond Reserve Account equals Maximum Annual Debt Service.

Moneys credited to the Bond Reserve Account shall be used solely to pay principal of or interest on the Outstanding Bonds, Prior Bonds or Parity Bonds at any time when there are insufficient funds available in the Bond and Interest Account to pay such principal and interest as the same become due, whether at maturity or pursuant to a mandatory sinking fund redemption.

Upon the issuance by the City of any Parity Bonds, the City has covenanted that it will immediately deposit to the Bond Reserve Account an amount sufficient to establish a balance to the credit of and on deposit in the Bond Reserve Account equal to Maximum Annual Debt Service; provided, that Maximum Annual Debt Service shall be calculated by including any such Parity Bonds; and further provided, that amounts on deposit in and to the credit of the Bond Reserve Account immediately following such deposit shall be deemed available for the payment of principal of and interest on such Parity Bonds at their last stated maturity.

Whenever there is on deposit in the Bond Reserve Account an amount in excess of Maximum Annual Debt Service, the excess may be withdrawn and transferred to any other Account or Accounts in the Revenue Fund as the City shall direct.

(d) Reserve and Replacement Account:

Beginning on the first day of the month following the delivery of the Bonds, or any of them, there shall be credited to the Reserve and Replacement Account, and held in cash and investments, the sum of \$5,000 each month until said Account aggregates the sum of \$500,000 (which amounts are inclusive of, and not in addition to, the amounts required under the ordinances authorizing the issuance of the Prior Bonds).

Moneys credited to the Reserve and Replacement Account may be used only for the purpose of paying principal of or interest on the Outstanding Bonds when there are insufficient moneys on deposit in the Bond and Interest Account or the Bond Reserve Account, and to the extent not required for the foregoing purpose, may be used for the payment of the costs of extraordinary maintenance, necessary repairs, renewals and replacements not included in the annual budget for current Operation and Maintenance Costs, or for improvements, repairs or replacement to the System as required by any agency of the State of Illinois or the United States Government, the payment for which no other funds are available. Whenever an amount is withdrawn from such Account and transferred to the Bond and Interest Account, \$5,000 per month (which amount is inclusive of, and not in addition to, the amount required under the Prior Bond Ordinances) must be added to the amount to be next and thereafter credited to the Reserve and Replacement Account until full reimbursement to that Account has been made.

(e) Surplus Account:

All moneys remaining in the Revenue Fund, after crediting the required amounts to the respective Accounts as described above, and after making up any deficiency in accounts (a) to (d), inclusive, shall be credited to the Surplus Account. Funds in the Surplus Account shall first be used to make up any subsequent deficiencies in any of the Accounts described above and then may be used for one or more of the following purposes in any order of priority among them:

- (1) For the purpose of constructing, installing or acquiring repairs, replacements, improvements or extensions to the System; or
- (2) For the purpose of calling and redeeming Outstanding Bonds, Prior Bonds or Parity Bonds, which are callable at the time; or
- (3) For the purpose of purchasing Outstanding Bonds, Prior Bonds or Parity Bonds, which are not callable at the time at a price not to exceed par and accrued interest to the date of purchase if such Bonds are not callable, or not to exceed par and accrued interest and any applicable call premium to the date of purchase; or
- (4) For the purpose of paying principal of and interest on any subordinate bonds or obligations issued for the purpose of acquiring, installing or constructing repairs, replacements, improvements or extensions to the System; or
- (5) For any other of the System or storm sewer purpose.

Investments: The moneys to the credit of the Revenue Fund prior to the monthly accounting and to the credit of the Operation and Maintenance Account may be invested pursuant to any authorization granted to municipal corporations by Illinois statute or court decision.

The moneys to the credit of accounts (b) to (e), inclusive, described above, maybe invested from time to time at the direction of the City in any investment authorized for the investment of funds of the City under the laws of the State of Illinois. Such investments may be sold from time to time as directed by the City as funds may be needed for the purpose for which the respective accounts have been created.

Investments in the Accounts shall mature or be subject to redemption at the option of the holder of such investments prior to the time when needed and, in any event, within the applicable times as follows:

<u>Account</u>	<u>Time</u>
Operation and Maintenance Bond and Interest.....	45 days
Bond and Interest	1 year
Bond Reserve	3 year
Repair and Replacement/Surplus	5 years

After making provision for the payment of any amount of excess arbitrage profits, as provided in the Internal Revenue Code of 1986, as amended (the “Code”), attributable to investment earnings or profits to the Rebate Fund for the appropriate issue or issues of Outstanding Bonds, Prior Bonds or Parity Bonds all earnings or profit on any funds so invested in the Bond and Interest Account shall be retained in that account. After making provision for the payment of any amount of excess arbitrage profits, as provided in the Code, attributable to investment earnings or profits of the Rebate Fund for the appropriate issue or issues of Outstanding Bonds, Prior Bonds or Parity Bonds all earnings or profit on any funds so invested in the Bond Reserve Account shall be credited upon receipt to the Bond and Interest Account. The City may take credit for such earnings or profits (not transferred to the Rebate Fund) in its final monthly accounting for the Bond and Interest Account in any Fiscal Year.

All interest or profit earned on any funds so invested in any other Accounts shall be credited to the Revenue Fund:

Excess over Requirements: Any amounts to the credit of the Accounts in the Revenue Fund in excess of any then current requirement for each such Account may be transferred by the City to such other Account or Accounts of the Revenue Fund as the City may in its sole discretion designate.

Rate Covenant

The City covenants in the Bond Ordinance to establish, maintain and collect at all times reasonable fees, charges and rates for the use and service of the System, sufficient at all times (i) to pay Operation and Maintenance Costs (including the amounts payable by the City to the Agency under the Intergovernmental Agreement; see “**THE AGENCY AND THE CITY’S PAYMENT OBLIGATIONS TO THE AGENCY**” herein) (ii) to provide Net Revenues in each Fiscal Year in the amount of not less than 120% of the Current Debt Service Requirement for all Outstanding Bonds for such Fiscal Year, (iii) to provide such additional amounts as may be required to fund an adequate depreciation fund and (iv) to provide for the creation and maintenance of the respective Accounts described above. “**Current Debt Service Requirement**” means the amount required to be credited under the Bond Ordinance to the Bond and Interest Account in a given Fiscal Year to pay debt service on Outstanding Bonds.

The City further covenants in the Bond Ordinance to charge against all users of the System, including the City, such rates and charges for the use and service of the System as shall be adequate to meet the requirements of the rate covenant.

Additional Bonds

The City reserves the right to issue additional bonds, at one time or from time to time, which are payable from Net Revenues on an equal and ratable basis with the Bonds and the Prior Bonds (the "Parity Bonds"). Any Parity Bonds shall mature as to principal on May 1 and as to interest on May 1 and/or November 1.

As provided in the Bond Ordinance, Parity Bonds may be issued, as the City Council of the City shall find necessary and in the best interest of the City, for the purpose of paying the costs of repairs, replacements, renewals, improvements and extensions to the System or to refund Outstanding Bonds or Prior Bonds, upon compliance with the following conditions:

- (a) The amounts required to have been credited to the Operation and Maintenance Account, the Bond and Interest Account, the Bond Reserve Account and the Reserve and Replacement Account up to the date of delivery of such Parity Bonds shall have been credited in full to those respective accounts; and
- (b) The Net Revenues for the last completed Fiscal Year or the adjusted Net Revenues of the System, if such revenues are adjusted as provided in the Bond Ordinance, are equal to not less than 125% of the Maximum Annual Debt Service for all then Outstanding Bonds and the Parity Bonds then proposed to be issued, but only for those Fiscal Years in which the Bonds Outstanding immediately before the issuance of the Parity Bonds will continue to be Outstanding as provided in the Bond Ordinance.

"Net Revenues" for the purpose of condition (b) shall be evidenced by an audit of an independent certified public accountant. If there shall have been an increase in the rates and charges for the use and service of the System from the rates in effect for the immediately preceding Fiscal Year, which increase is in effect at the time of the issuance of any such Parity Bonds, then the Net Revenues may be adjusted to reflect the Net Revenues of the System for the immediately preceding Fiscal Year as they would have been had such then-existing rates been in effect during all of such Fiscal Year. Any such adjusted Net Revenues shall be evidenced by the certificate of an independent consulting engineer or an independent certified public accountant employed for that purpose, which certificate shall be filed with and approved by the City Council of the City prior to the issuance of the Parity Bonds.

Notwithstanding the foregoing, the City may issue Parity Bonds (i) to refund Outstanding Bonds or Prior Bonds, in order to avoid a default on such Outstanding Bonds or Prior Bonds, provided the Parity Bonds are issued within three months of the date of such default, or (ii) to refund all or a part of the Bonds (with the consent of the holders of the Bonds, unless provisions for the call and redemption of the Bonds is duly made), *provided*, that if only a portion of the Bonds are to be refunded at any time, such Bonds shall not be refunded by Parity Bonds bearing interest at a rate greater than the rate on the Bonds or maturing at a date earlier than the final maturity of the Bonds not refunded.

In addition, subordinate bonds or other subordinate obligations may be issued payable from the Revenues subordinate to the Outstanding Bonds. Such subordinate bonds or obligations shall be payable, on an appropriate lien basis, from or out of the Surplus Account.

Contracts or agreements, including long-term and take-or-pay contracts or agreements, for the treatment of sewage which by their terms require payments by the City as an Operation and Maintenance Cost are excluded from the application of the foregoing provisions pertaining to Parity Bonds and may be entered into by the City notwithstanding any of the foregoing provisions.

Other Covenants

In addition to the covenants referred to above, the City has covenanted under the Bond Ordinance, so long as any of the Bonds are outstanding, as follows:

- (a) The City will maintain the System in good repair and working order, will operate the same efficiently and will faithfully and punctually perform all duties with respect to the System required by the Constitution and laws of the State of Illinois;
- (b) The City from time to time will make all needful and proper repairs, replacements, additions, and betterments to the System so that it may at all times be operated properly and advantageously; and when any necessary equipment or facility shall have been worn out, destroyed, or otherwise is insufficient for proper use, it must promptly be replaced so that the value and efficiency of the System will be at all times fully maintained;
- (c) The City will establish such rules and regulations for the control and operation of the System necessary for the safe, lawful, efficient and economical operation of the System, and rates and charges shall be fixed and revised from time to time as may be necessary to produce funds sufficient for all the purposes provided in the Bond Ordinance until all of the outstanding Bonds, the Prior Bonds and Parity Bonds have been paid in full, both as to principal and interest;
- (d) The City will maintain and keep proper books and accounts (separate and apart from all other records and accounts of the City), in which complete entries shall be made of all transactions relating to the System. Within 210 days following the close of each Fiscal Year, the City will cause the books and accounts of the System to be audited by independent certified public accountants. That audit will be available for inspection at all proper times to the registered owners of any of the Bonds. Each such audit, in addition to whatever matters may be thought proper by the accountants to be included therein, shall, without limiting the generality of the foregoing, include the following:
 - (i) A statement in detail of income and expenditures of the System for such Fiscal Year.
 - (ii) A balance sheet as of the end of such Fiscal Year, including a statement of the amount held in each of the Accounts of the Revenue Fund and comparable information from the previous Fiscal Year.
 - (iii) A description of all insurance policies pertaining to the System.
 - (iv) The number of customers of each type served by the System at the end of the Fiscal Year, the number of metered customers and the number of unmetered customers at the end of the Fiscal Year, the quantity of water pumped and the quantity of sewerage treated.
 - (v) Changes in the cost of purchased sewer services during such Fiscal Year.
 - (vi) A summary of rates in effect at the end of such Fiscal Year for services of the System and any changes in such rates effective during such Fiscal Year.
 - (vii) The amount and details of all Outstanding Bonds and Prior Bonds.
 - (viii) The accountant's comment regarding the manner in which the City has carried out the requirements of the Bond Ordinance, and the accountant's recommendations for any changes or improvements in the operation of the System.

All expenses of the audit shall be regarded and paid as Operation and Maintenance Costs.

The City will furnish a summary of the audit to any bondholder upon request.

- (e) The City will keep the books and accounts for the System in accordance with generally accepted fund reporting practices for municipal enterprise funds; *provided* that the monthly credits to the Bond and Interest Account, the Bond Reserve Account, and the Reserve and Replacement Account shall be in cash and those funds shall be held separate and apart in cash and investments. For the purpose of determining whether sufficient cash and investments are on deposit in such accounts under the terms and requirements of the Bond Ordinance, investments shall be valued at amortized cost;
- (f) The City will not sell, lease, loan, mortgage or in any manner dispose of or encumber the System (subject to the right of the City to issue Parity Bonds as provided in the Bond Ordinance, to issue bonds subordinate to Outstanding Bonds and Prior Bonds, and to dispose of real or personal property which is no longer useful or necessary to the operation of the System), and the City will take no action in relation to the System which would unfavorably affect the security of the Outstanding Bonds and Prior Bonds or the prompt payment of the principal and interest on the Outstanding Bonds. Any amounts received from the sale of property of the System which is no longer useful or necessary to its operation shall be deposited to the credit of the Reserve and Replacement Account;
- (g) Any holder or registered owner of a Bond may proceed by civil action to compel performance of all duties required by law and the Bond Ordinance, including the making and collecting of sufficient charges and rates for the service supplied by the System and the application of the income and revenue from it;
- (h) The City will carry insurance on the System of the kinds and in the amount which are usually carried by private parties operating similar properties, covering such risks as shall be recommended by a competent consulting engineer or insurance consultant employed by the City for the purpose of making such recommendations. The City may alternatively self insure or provide insurance by means of a self-insurance pool with other units of local government, *provided* that either private insurance is not available at a reasonable cost to the City or the pool shall have assets or shall have created a self-insurance reserve fund in an amount as shall be determined by a competent insurance consultant not to be unreasonable in view of the risks insured.

All moneys received for loss under such insurance policies must be deposited to the credit of the Reserve and Replacement Account and used in making good the loss or damage in respect of which they were paid, either by repairing the property damaged or making replacement of the property destroyed, and provision for making good such loss or damage shall be made within ninety (90) days from the date of the loss. The payment of premiums, for all insurance policies and regular payments to a pool and regular accumulations for a reserve required under the provisions of this covenant will be considered an Operation and Maintenance Cost. The proceeds derived from any and all policies for workers' compensation or public liability or self-insurance reserve fund or pool for such purposes must be paid into the Operation and Maintenance Account and used in paying the claims on account of which they were received;

- (i) The City will not provide any free System service, and, to the extent permitted by law, the City will not grant a franchise for the operation of any competing sewerage system within the City; and

- (j) The City will adopt a budget for the System prior to the beginning of each Fiscal Year, subject to applicable state law, providing for payment of all sums to be due in the Fiscal Year so as to comply with the terms of the Bond Ordinance and of any long-term sewer service or supply agreements, *provided* that such budget may include in its estimate of income, the use of available surplus moneys or other funds of the City appropriated for the purpose. If during the Fiscal Year there are extraordinary unbudgeted receipts or payments of unusual cost, the City will adopt an amended budget for the remainder of the Fiscal Year, providing for receipts or payments pursuant to the Bond Ordinance.

THE AGENCY AND THE CITY'S PAYMENT OBLIGATIONS TO THE AGENCY

The Agency was established by the Member Municipalities (as more fully described below) for the purpose of jointly treating and processing wastewater contributed by the Member Municipalities and any other private person or public agency which contributes wastewater to the Facility for treatment. At present, only the Member Municipalities contribute wastewater to the Facility for treatment.

The Agency is an independent political subdivision, and not a subordinate body of the Member Municipalities, including the City. The Agency has the power of eminent domain, and does not need the approval of the Member Municipalities or any other municipality or political body to exercise that power. In addition, the Agency's directors, although appointed by the Member Municipalities, are not required to act in the best interests of the municipality that appointed them.

The Member Municipalities have no ability to use (other than through purchase of services from the Agency) or acquire any assets of the Agency, or to direct in any way the manner in which such assets are used.

History

Prior to 1988, the City and the Villages of Bradley and Bourbonnais, Illinois, owned and operated their own wastewater treatment facilities. Between 1985 and 1987, in order to meet the growing wastewater treatment needs of the region, the City expanded and improved its municipal sewerage treatment system into what became the Regional Wastewater Treatment Facility (the "Facility"). The Facility became operational in 1989. Soon thereafter, the Villages began diverting their wastewater to the Facility for treatment and, as required by state and federal environmental agencies, abandoned their own sewerage treatment facilities.

The Intergovernmental Agreement

The Agency was established by the City and the Villages of Bradley, Bourbonnais and Aroma Park, Illinois (collectively, the "Member Municipalities"), which entered into an Intergovernmental Agreement on May 1, 1996 (as subsequently amended and restated, the "Intergovernmental Agreement"), pursuant to applicable provisions of Illinois Law. Under Article VII, Section 10 of the 1970 Constitution of the State of Illinois, units of local government may contract among themselves to obtain or share services or to exercise, combine or transfer any power or function in any manner not prohibited by law or ordinance. In addition, Sections 3 and 5 of the Illinois Intergovernmental Cooperation Act, 5 ILCS 220/i *et seq.* (the "Intergovernmental Cooperation Act") provide that any power(s), privileges or authority exercised by a "public agency" of the State of Illinois may be exercised jointly with any other public agency in the State of Illinois, through the use of intergovernmental contracts to perform any services that any of such public agencies is authorized to perform. As defined in Section 2 of the Intergovernmental Cooperation Act, the term "public agency" includes both counties and municipalities (cities, towns and villages) of the State of Illinois. Section 3.4 of the Intergovernmental Cooperation Act specifically authorizes municipalities and counties in the State of Illinois to form an agency to provide for the treatment, carrying off and disposal of wastewater of member municipalities and counties.

The Intergovernmental Agreement was executed by the Member Municipalities on May 1, 1996, and was amended and restated on March 1, 1999. The Intergovernmental Agreement established the Agency, provided for its governance as described above, established its powers, provided for the Agency to operate and, at a future date to acquire, own and operate, the Facility, empowered the Agency to establish and collect rates and charges for the sewerage treatment services it provides, provided for the allocation of sewerage treatment capacity among the Members, and obligated the Member Municipalities to pay for the services provided to them by the Agency.

Source of Agency Revenues

The Facility is the Agency's principal asset and is the source of its operating revenues. Under the Intergovernmental Agreement, the Facility includes the regional wastewater treatment plant located in the City. The Facility does not include the sewerage collection systems of the Member Municipalities, including the City, each of which is owned and operated by the respective Member Municipality as a municipal sewerage enterprise system. Each such municipal sewerage enterprise system is referred to as a "Municipal Sewerage System."

Under the Intergovernmental Agreement, the Agency is responsible for operating the Facility and providing wastewater treatment services to the four Municipal Sewerage Systems. The Agency operates the Facility. The current treatment capacity of the Facility is 25.0 million gallons per day ("MGD"). The treatment capacity of the Facility is allocated among the Member Municipalities pursuant to allocation agreements between the Agency and each Member Municipality. Of the Facility's current treatment capacity, 24.9 MGD has been allocated in this way. The remaining 0.1 MGD, and any future unallocated treatment capacity, arising from improvements and additions to the Facility collectively termed "reserve capacity" in the Intergovernmental Agreement, is required to be maintained for the future needs of the Member Municipalities and the needs of any future non-Member customers. The Member Municipalities may elect to transfer treatment capacity allocated to them that exceeds their needs to other Member Municipalities.

The Intergovernmental Agreement establishes separate "rate methodologies" pursuant to which the costs of operation and maintenance of the Facility and the capital costs of improvements and replacements (collectively, the "Facility Costs") are allocated among the Member Municipalities. Operation and maintenance costs are allocated in proportion to the hydraulic flow of wastewater, measured in millions of gallons per day, contributed by each Member Municipality. At present, the City's average percentage of hydraulic flow is 61%, which constitutes the percentage of the Agency's operation and maintenance expense for which the City is currently responsible. The City's percentage share of operation and maintenance costs can be expected to vary from time to time as the proportion of the hydraulic flow of wastewater contributed by each Member Municipality changes. At present, allocations of operation and maintenance costs are reviewed and (if necessary) changed annually based on the prior year's aggregate contributions by each Member Municipality. The capital costs of the Agency, including debt service on its bonds, are allocated among the Member Municipalities, including the City, based on an agreed-upon formula. Debt service on the Agency Bonds is allocated among the Member Municipalities based on the agreed percentage allocations shown in the table captioned "Capital Cost Allocations" below. The City is currently responsible for 54.42% of the debt service on the Agency Bonds. All other capital costs, including required monthly deposits into the Bond Reserve Account and the Depreciation Account and debt service on Parity Bonds, are allocated among Member Municipalities based on their respective percentage shares of capacity allocation.

Operation and Maintenance Cost Allocation

<i>Member Municipality</i>	<i>Capacity Allocation (MGD)</i>	<i>Current Usage (MGD)</i>	<i>Capacity Allocation (%)</i>	<i>Cost Allocation (%)</i>
Kankakee	13.6	3,816	54.42	65.45
Bourbonnais	7.4	1,118	29.72	19.17
Bradlev	3.8	876	15.26	15.03
Aroma Park	0.1	20	0.60	0.35
Totals:	24.9	5,831	100.00%	100.00%

Fiscal Year 2012 of KRMA.

Capital Cost Allocations

<i>Member Municipality</i>	<i>1999 Bonds Debt Service Allocation (%)</i>	<i>Other Capital Costs Allocation</i>
Kankakee	54.42	54.42
Bourbonnais	29.72	29.72
Bradlev	15.26	15.26
Aroma Park	0.60	0.60
Total:	100.00	100.00

See "Pro Forma Historical Debt Service Coverage" for an analysis of the historical pro forma debt service coverage on the Bonds giving effect to the City's payment obligations to the Agency.

The Intergovernmental Agreement requires the Agency to bill each Member Municipality, by the 21st day of each month, for its share of the Facility Costs, and further requires each Member Municipality to "include in its annual appropriation or budget ordinance adequate funds for the aforementioned payments." **The Member Municipalities also agreed in the Intergovernmental Agreement that payments to the Agency under the Intergovernmental Agreement will be treated as operation and maintenance expenses of the respective Municipal Sewerage Systems. Accordingly, payment for services provided by the Authority under the Intergovernmental Agreement will have a priority with respect to the revenues of the respective Municipal Sewerage Systems senior to any obligations of the Member Municipalities payable from such revenues. In the Intergovernmental Agreement, the Member Municipalities agreed not to incur obligations payable from the revenues of the respective Municipal Sewerage Systems senior to, or on a parity with, the Member Municipality's payment obligations under the Intergovernmental Agreement.**

Each Member Municipality is responsible only for the portion of the Facility Costs allocated to it. The Member Municipalities are not jointly and severably liable for the Facility Costs. The Intergovernmental Agreement does not provide for a "step up" of payments by non-defaulting Member Municipalities if one or more of the Member Municipalities defaults in its payments under the Intergovernmental Agreement.

THE SEWER SYSTEM

The System provides for the collection of wastewater from residential, commercial and industrial users within the City and in limited unincorporated areas outside the City. The System contains over 100 miles of sanitary sewers servicing 32 square miles of developed land inhabited by 27,537 people within the City. The System is designed to serve an expanded area of 140 square miles with an estimated population of 75,000 surrounding the present service area. The following table sets forth the trend of population in the service area since 1960.

System Service Area Population

<u>Year</u>	<u>Population</u>
1960	27,666
1970	30,944
1980	30,141
1990	27,972
2000	27,491
2008	27,491
2009	27,491
2010	27,537

General Organization and Staffing. The Kankakee Environmental Services Utility (the “Utility”) was established by ordinance of the City Council on April 18, 1988, as a non-regulated public utility of the City to be operated independently as an enterprise fund of the City. The Utility is responsible for the operation and maintenance of the Kankakee City Sewer System.

Prior to 1988, the Utility was known as the Department of Water of Pollution Control and was an executive department of the City.

Oversight of Utility operations rests with 9-member Utility Board (the “Board”). The Mayor of the City serves as Chairman of the Board. Other members include the City Clerk and seven City aldermen. Responsibility for the day-to-day operations of the Utility rest with the Superintendent.

Currently, 54 employees serve the Utility in the following areas.

Administration: This group provides for overall management as well as clerical services, accounting, customer billing and collections.

Field Operations: This group provides for sanitary sewer maintenance and repair, pump station operations and maintenance, record keeping and engineering and construction activities.

Technical Services: This group provides for electrical, electronic and computer services.

Description of Physical Facilities. The System consists of approximately 100 miles of sewers. The System includes collector sewers, interceptors, siphons and diversion structures.

Collector Sewer System: The collector sewer system is divided into seven subsystems which cover various parts of the service area. The sewers range in size from 8 inches to 72 inches in diameter. The collector sewer system also includes elliptical sewers ranging from 45 x 29 inches to 60 x 38 inches. Construction of the collector sewer system began in 1890. Approximately 10% of the collector sewer system has been constructed since 1960.

Interceptor Sewer System: Two major interceptors, the Shapiro Development Center Interceptor and the River Interceptor, convey wastewater from the City's collector sewer system to the Facility. The Shapiro Development Center Interceptor consists of approximately 6,600 feet of 30-inch and 33-inch concrete pipe. The River Interceptor consists of approximately 21,000 feet of 18-inch up to 48-inch concrete pipe, constructed adjacent to the Kankakee River. Approximately 75% of the interceptor sewer system has been reconstructed since 1989.

In recent years, the City has contracted for the construction of additional interceptor sewers to convey wastewater to various lift stations, and from those lift stations to the Facility. The new interceptor sewers consist of approximately 13,644 feet of concrete sanitary sewer pipe ranging in size from 24 inches to 72 inches.

Financial Operations

The City's Sewer Use Ordinance provides that the revenues of the City's sewerage system are to be reserved and used exclusively for the operation, maintenance, rehabilitation and reconstruction of the sewerage system. The current base charge for sewer service is \$4.75 per 100 cubic feet of water utilized and there are two environmental surcharges, as shown below. Water is provided by Consumers Illinois Water Company, the private water utility serving the Kankakee area. Sewer service charges are established by City's Sewer Use Ordinance, as amended from time to time, and are not subject to approval or review by any Federal or State authority.

The recent history of sewer service rates is shown as follows:

Charge/Surcharge(1)	Rate per 100 <u>Cubic Feet</u>
Base Use Charge	\$4.75
Biochemical Oxygen Demand Surcharge per lb. over 200 mg/l	0.40
Suspended Solids Surcharge per lb. over 250 mg/l	0.40

Note: (1) As of May 1, 2013.

See “**Historical Revenue Available for Debt Service**” for information regarding the historical System revenue collections.

All sewer work performed within the City, or connecting to the City owned sewers, whether on private or public property, is subject to approval of the Superintendent. All structures in the City must be connected to the System. There is no competition for sewer service in the City. There are no significant developed areas within the City without sanitary sewer service.

Number of Customers: The following table identifies the number of customers of the Sewer System by type for fiscal years 2008 through 2012:

	Fiscal Year Ended April 30				
<u>Customer Type:</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Residential and Commercial	8,162	8,043	7,937	7,985	7,957
Industrial and Institutional.....	36	40	40	40	44

Distribution of Revenues by Type of Customer. The following table identifies the approximate percentage distribution of Revenues by type of account for fiscal years 2008 through 2012:

Fiscal Year Ended April 30

Customer Type:	2008	2009	2010	2011	2012
Residential and Commercial	\$2,516,305	\$2,672,471	\$3,221,535	\$3,372,606	\$3,718,157
Industrial and Institutional.....	4,713,607	5,019,617	4,729,383	5,075,583	5,708,656

Revenue Produced by Largest Customers. The following table identifies the approximate percentage of Sewer System revenues attributable to the largest customers of the Sewer System:

<u>Name of Customer</u>	<u>Description</u>	<u>Fiscal Year 2012 %)</u>
BASF	Chemical Mft.	29%
CSL Bearing	Biotherapy Industries	20%
Bunge Foods.....	Vegetable Oil Mft.	14%
DOW.....	Chemical Mft.	8%
Del Monte.....	Wholesale Vegetables/Fruit	2%
Millipore	Bioprocessing Center	2%
Riverside Hospital	Regional Medical Center.....	4%
DAWN	Commercial Bakery.....	5%
Shapiro Development Center	Hospital	3%
Village of Chebanse	Government	2%

Billings and Collections. The sewer service charge is billed monthly to all customers except residential users who pay annually in advance and receive a 5.0% discount. All billings are handled by the accounting office of the Utility and all collections are performed by the Utility. Upon collection of the sewer service charge, the Utility deposits the payments received into a clearing account. Once the payments clear, the transfer of all sewer funds to the Revenue Fund is made.

The number of residential and commercial accounts has remained fairly constant over the last five years.

Large industrial users of the Utility are billed for flow and strength of the wastewater discharged. The rates for surcharged strength are established by ordinance and assure that industrial users pay their proportionate share of the cost of service.

Payments are due 20 days from the date of the bill and a late payment charge of 1.5% of the outstanding balance per month is assessed to all delinquent customers. Delinquency notices are sent to customers whenever their account becomes 60 days delinquent.

The contract collection agreement with Aqua Illinois results in collections of 99+ % of billings.

Planning and Annual Budget Review. The Superintendent is responsible for preparation of the annual budget and presentation to the Utility Board for review. Following budget review and approval by the Board at a regular public session, the Superintendent presents the budget along with an appropriation ordinance to the City Council for first and second readings at regular public meetings.

Upon final approval of the appropriation ordinance, the budget is administered by the Superintendent with monthly approval of revenues and expenditures by the Utility Board. Modification of the annual appropriations requires City Council approval.

SEWER DEBT INFORMATION

After issuance of the Bonds, the City will have outstanding \$14,105,000 of sewer revenue bonds.

Outstanding Sewer Revenue Bonds(I) (Principal Only)

Calendar Year	Taxable Series 2009	Taxable Series 2010A	Tax-Exempt Series 2010B	The Bonds		Total Debt	Cumulative Principal Retired	
				Taxable Series 2013A	Tax-Exempt Series 2013B		Amount	Percent
2013	\$ 230,000	\$ 0	\$ 220,000	\$ 0	\$ 0	\$ 450,000	\$ 450,000	3.19%
2014	240,000	0	225,000	0	0	465,000	915,000	6.49%
2015	250,000	0	230,000	0	0	480,000	1,395,000	9.89%
2016	260,000	0	240,000	0	0	500,000	1,895,000	13.43%
2017	270,000	0	245,000	215,000	0	730,000	2,625,000	18.61%
2018	280,000	0	250,000	220,000	0	750,000	3,375,000	23.93%
2019	295,000	0	260,000	230,000	0	785,000	4,160,000	29.49%
2020	310,000	0	270,000	235,000	0	815,000	4,975,000	35.27%
2021	325,000	0	280,000	245,000	0	850,000	5,825,000	41.30%
2022	345,000	0	290,000	260,000	0	895,000	6,720,000	47.64%
2023	365,000	300,000	0	270,000	0	935,000	7,655,000	54.27%
2024	385,000	310,000	0	285,000	0	980,000	8,635,000	61.22%
2025	0	320,000	0	210,000	95,000	625,000	9,260,000	65.65%
2026	0	330,000	0	0	320,000	650,000	9,910,000	70.26%
2027	0	340,000	0	0	330,000	670,000	10,580,000	75.01%
2028	0	355,000	0	0	345,000	700,000	11,280,000	79.97%
2029	0	365,000	0	0	365,000	730,000	12,010,000	85.15%
2030	0	380,000	0	0	380,000	380,000	12,390,000	87.84%
2031	0	0	0	0	400,000	400,000	12,790,000	90.68%
2032	0	0	0	0	415,000	415,000	13,205,000	93.62%
2033	0	0	0	0	440,000	440,000	13,645,000	96.74%
2034	0	0	0	0	460,000	460,000	14,105,000	100.00%
Total	\$3,555,000	\$2,700,000	\$2,510,000	\$2,170,000	\$3,550,000	\$14,105,000		

Note: (1) Source: the City.

**Pro Forma Debt Service Coverage
 Sewer Revenue Bonds**

Fiscal Year	Net Revenue Available For Debt Service(1)	Series 2009	Series 2010A(2)	Series 2010B	The Bonds		Total Debt Service	Coverage
					Series 2013A	Series 2013B		
2013	\$1,849,712	\$404,548	\$ 90,065	\$301,370	\$ 0	\$ 0	\$ 795,983	2.32x
2014	1,849,712	407,188	90,065	300,870	68,713	121,274	988,110	1.87x
2015	1,849,712	408,788	90,065	300,245	93,347	164,750	1,057,194	1.75x
2016	1,849,712	409,288	90,065	303,345	93,347	164,750	1,060,794	1.74x
2017	1,849,712	408,108	90,065	301,145	308,347	164,750	1,272,414	1.45x
2018	1,849,712	405,283	90,065	298,795	307,090	164,750	1,265,983	1.46x
2019	1,849,712	406,283	90,065	301,045	310,248	164,750	1,272,391	1.45x
2020	1,849,712	406,090	90,065	301,815	306,439	164,750	1,269,159	1.46x
2021	1,849,712	404,660	90,065	302,230	307,439	164,750	1,269,144	1.46x
2022	1,849,712	407,110	90,065	301,310	310,728	164,750	1,273,963	1.45x
2023	1,849,712	408,135	390,065	0	308,300	164,750	1,271,250	1.46x
2024	1,849,712	407,330	391,238	0	310,394	164,750	1,273,712	1.45x
2025	1,849,712	0	391,860	0	220,773	259,750	872,383	2.12x
2026	1,849,712	0	391,916	0	0	480,594	872,510	2.12x
2027	1,849,712	0	391,480	0	0	476,594	868,074	2.13x
2028	1,849,712	0	394,325	0	0	477,156	871,481	2.12x
2029	1,849,712	0	391,634	0	0	482,063	873,697	2.12x
2030	1,849,712	0	393,585	0	0	480,181	873,766	2.12x
2031	1,849,712	0	0	0	0	482,606	482,606	3.83x
2032	1,849,712	0	0	0	0	479,106	479,106	3.86x
2033	1,849,712	0	0	0	0	483,875	483,875	3.82x
2034	1,849,712	0	0	0	0	482,425	482,425	3.83x

Notes: (1) Based on the City's fiscal year 2012 net revenues of the Utility.
 (2) Debt service after Treasury rebate.

Historical Revenue Available for Debt Service

	Fiscal Years Ending April 30				
	2008	2009	2010	2011(2)	2012(2)
Operating Revenues(1).....	\$7,312,823	\$7,825,459	\$ 7,950,919	\$8,448,189	\$9,426,813
Less: Operating Expenses(1).....	(7,036,919)	(7,996,216)	(7,386,910)	(3,789,212)	(3,312,357)
Add: Depreciation.....	969,357	942,923	994,179	0	0
Add: Interest Earnings.....	143,514	21,830	0	0	327
Less: Kankakee River Metropolitan Agency..	0	0	0	(3,203,020)	(4,265,071)
Net Revenue Available for Debt Service..	\$1,388,775	\$ 793,996	\$ 1,558,188	\$1,455,957	\$1,849,712

Notes: (1) Does not include hydroelectric and solid waste revenues and expenditures.
 (2) Format change.

THE PURPOSE – The 2013A BONDS

The 2013A Bonds are being issued to pay capitalized interest on the Bonds for the period through May 1, 2016; to pay back a loan that the City’s Water Fund took out from the City’s General Fund; to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance and to pay the costs of issuing the 2013A Bonds.

**Series 2013A
 Sources and Uses**

Sources:	
Bond Proceeds	\$2,170,000
Uses:	
Loan Repayment	\$1,000,000
Reserve Fund Deposit	414,000
Capitalized Interest	706,181
Cost of Issuance.....	48,719
Contingency	1,100
Total	<u>\$2,170,000</u>

PLAN OF FINANCING – THE 2013B BONDS

The 2013B Bond proceeds will be used to fund an escrow to defease a portion of the City's outstanding 2007A Bonds and to defease a portion of the City's outstanding 2009B Bonds (together, the "Defeased Bonds") below.

The 2007A Bonds

<u>Outstanding Maturities</u>	<u>Outstanding Amount</u>	<u>Amount Defeased</u>
01/01/2014.....	\$ 240,000	\$160,000
01/01/2015.....	260,000	170,000
01/01/2016.....	265,000	175,000
01/01/2017.....	95,000	0
01/01/2018.....	110,000	0
01/01/2019.....	125,000	0
01/01/2020.....	140,000	0
01/01/2021.....	160,000	0
01/01/2022.....	170,000	0
01/01/2023.....	180,000	0
01/01/2024.....	600,000	0
01/01/2025.....	635,000	0
01/01/2026.....	670,000	0
01/01/2027.....	<u>700,000</u>	<u>0</u>
Total	\$4,350,000	\$505,000

The 2009B Bonds

<u>Outstanding Maturities</u>	<u>Outstanding Amount</u>	<u>Amount Defeased</u>
01/01/2014.....	\$1,670,000	\$ 545,000
01/01/2015.....	2,275,000	520,000
01/01/2016.....	975,000	535,000
01/01/2017.....	1,045,000	560,000
01/01/2018.....	1,360,000	215,000
01/01/2019.....	1,500,000	0
01/01/2020.....	610,000	0
1/1/2025(1)	<u>215,000</u>	<u>0</u>
Total	\$9,650,000	\$2,375,000

Note: (1) Term bond.

Bond proceeds will be used to purchase direct full faith and credit obligations of the United States of America (the "Government Securities"), the principal of which together with interest to be earned thereon will be sufficient (i) to pay when due the interest on the Defeased Bonds as stated above, and (ii) to pay principal of and call premium, if any, on the Defeased Bonds on their respective redemption dates. The remaining bond proceeds will be used to pay the costs of issuing the Bonds.

The Government Securities will be held in an escrow account created pursuant to an escrow agreement (the "Escrow Agreement") dated as of August 6, 2013, between the City and U.S. Bank National Association, Chicago, Illinois, as Escrow Trustee (the "Escrow Trustee").

THE PURPOSE – The 2013B BONDS

The 2013B Bonds are being issued to fund an escrow for the Defeased Bonds; to provide funds for deposit to the debt service reserve account in accordance with the Bond Ordinance and to pay costs of issuing the 2013B Bonds.

**Series 2013B
 Sources and Uses**

Sources:	
Par Amount	\$3,550,000
Original Issue Discount	<u>(54,628)</u>
Total	\$3,495,372
 Uses:	
Escrow	\$3,062,011
Reserve Fund Deposit	351,000
Cost of Issuance.....	79,702
Contingency	<u>2,659</u>
Total	\$3,495,372

The mathematical calculations: (a) of the adequacy of the deposit made pursuant to the Escrow Agreement to provide for the payment of certain interest, principal and call premiums on the Refunded Bonds, and (b) supporting the opinion of Bond Counsel that the interest of the Bonds is excludable from gross income of the owners thereof for federal income tax purposes will be verified by Dunbar Breitweiser & Company, LLP, Bloomington, Illinois, Independent Certified Public Accountant, at the time of delivery of the Bonds. All moneys and Government Securities deposited for the payment of Refunded Bonds, including interest thereon, are required to be applied solely and irrevocably to the payment of the Refunded Bonds.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE

The following is a summary of certain provisions of the Bond Ordinance. This summary is not to be considered a full statement of the terms of the Bond Ordinance and is qualified by reference thereto and is subject to the full text of the Bond Ordinance.

Definitions

As used or referred to in the Bond Ordinance, unless a different meaning clearly appears from the context:

“Bond” or “Bonds” means one or more, as applicable, of the Bonds authorized to be issued by the Bond Ordinance.

“Bond Ordinance” means the ordinance adopted by the City Council of the City on July 15, 2013, authorizing the issuance of the Bonds.

“Bond Register” means the books of the City kept by the Bond Registrar to evidence the registration and transfer of the Bonds.

“Bond Registrar” means the City Comptroller, Kankakee, Illinois, or a successor designated as Bond Registrar under the Bond Ordinance.

“Bond Year” means that twelve calendar month period beginning May 2 of any calendar year and ending, on May 1 of the following year.

“City” means the City of Kankakee, Kankakee County, Illinois.

“City Council” means the City Council of the City.

“Code” means the Internal Revenue Code of 1986, as amended.

“Current Debt Service Requirement” means, for any Bond Year, the aggregate Principal Requirement and the Interest Requirement for such Bond Year.

“Depository” means The Depository Trust Company, New York, New York, or successor or assign duly qualified to act as a securities depository with respect to the Bonds.

“Fiscal Year” means a twelve-month period beginning May 1 of the calendar year and ending on the next succeeding April 30.

“Interest Requirement” means, for any Bond Year, the aggregate amount of interest due and payable on Outstanding Bonds during such Bond Year.

“Maximum Annual Debt Service” means an amount of money equal to the highest future aggregate Principal Requirement and Interest Requirement of all Outstanding Bonds required to be deposited into the Bond and Interest Account continued by the Bond Ordinance in any Fiscal Year, including and subsequent to the Fiscal Year in which the computation is made. Any Outstanding Bonds required to be redeemed pursuant to mandatory redemption from the Bond and Interest Account shall be treated as falling due on the date required to be redeemed (except in the case of failure to make any such mandatory redemption) and not on the stated maturity date of such Outstanding Bonds.

“Net Revenues” means Revenues minus Operation and Maintenance Costs.

“Operation and Maintenance Costs” means all costs of operating, maintaining and routine repair of the System, including wages, salaries, costs of materials and supplies, power, fuel, insurance, purchase of water or sewage treatment services (including, specifically, all payments by the City to the Kankakee River Metropolitan Agency pursuant to long term contracts for such services); but excluding debt service, depreciation, replacement or any reserve requirements; and otherwise determined in accordance with generally accepted principles for municipal enterprise funds.

“Outstanding” when used with reference to Bonds, Prior Bonds and any Parity Bonds means Bonds, Prior Bonds and Parity Bonds which are outstanding and unpaid; *provided, however*, that such term shall not include the Bonds, Prior Bonds or Parity Bonds (i) which have matured and for which moneys are on deposit with proper paying agents, or are otherwise properly available, sufficient to pay when due all principal thereof and interest thereon, or (ii) the provision for payment of which has been made by the City by the deposit in an irrevocable trust or escrow of funds or direct, full faith and credit obligations of the United States of America, the principal of and interest on which will be sufficient to pay at maturity or as called for redemption all the principal of and interest on such Bonds, Prior Bonds or Parity Bonds.

“Parity Bonds” means bonds or any other obligation to be issued subsequent in time to the Bonds and which will share ratably and equally in the Net Revenues with the Prior Bonds and the Bonds.

“Paying Agent” means the City Comptroller, Kankakee, Illinois, or its successors or assigns under the Bond Ordinances.

“Principal Requirement” means, for any Bond Year, the aggregate principal amount of Outstanding Bonds due and payable during such Bond Year.

“Qualified Investments” means any investment authorized for the investment of funds of the City under the laws of the State of Illinois.

“Revenue Fund” means the Waterworks and Sewerage Fund of the City heretofore created and expressly continued by the Ordinance.

“Revenues” means all income from whatever source derived from the System, including (i) investment income; (ii) connection, permit and inspection fees and the like; (iii) penalties and delinquency charges; (iv) capital development, reimbursement, or recovery charges and the like; (v) annexation or pre-annexation charges insofar as designated by the City Council as paid for System connection or service; but excluding expressly (a) non-recurring income from the sale of property of the System; (b) governmental or other grants; (c) advances or grants made from the City or any other governmental entity; and as otherwise determined in accordance with generally accepted accounting principles for municipal enterprise funds.

“Series 2009 Bonds” means the Taxable Sewer Revenue Bonds, Series 2009, of the City.

“Series 2010A Bonds” means Taxable Sewer Revenue Bonds, Series 2010A (Recovery Zone Economic Development Bonds-Direct Pay), of the City.

“Series 2010B Bonds” means the Sewer Revenue Bonds, Series 2010B, of the City.

“Series 2013A Bonds” means the Taxable Sewer Revenue Bonds, Series 2013A, of the City.

“Series 2013B Bonds” means the Sewer Revenue Refunding Bonds, Series 2013B of the City.

“System” refers to all property, real, personal or otherwise owned or to be owned by the City or under the control of the City, and used for waterworks and sewerage purposes, including any and all further extensions, improvements and additions to the System.

Bond Ordinance to Constitute Contract

In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of the Bond Ordinance shall be deemed to be and shall constitute contracts between the City and the holders from time to time of the Bonds. The pledges made in the Bond Ordinance and the covenants and agreements set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the holders of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or pursuant to the Bond Ordinance.

Limited Obligation of Bonds

The Bonds shall be limited obligations of the City payable from the Net Revenues of the System, and the moneys, securities and funds pledged therefor under the Bond Ordinance, subject to the withdrawal and application of such moneys, securities and funds in accordance with the provisions of the Bond Ordinance. The Bonds shall not be deemed to constitute general obligations of the City. Neither the full faith and credit nor the general taxing power of the City is pledged to the payment of the principal of or interest on the Bonds.

SEWER SYSTEM FINANCIAL INFORMATION

The following tables are summaries, excerpted from the audited financial statements of the City, copies of which are available upon request. Please see **APPENDIX A** for excerpts from the City's 2012 audited financial statements.

**Utility Fund
 Statement of Net Assets**

	Audited As of April 30				
	2008	2009	2010	2011	2012
ASSETS:					
Current Assets:					
Cash and Investments.....	\$ 1,113,280	\$ 317,849	\$ 3,064,184	\$ 2,110,454	\$ 968,012
Restricted Cash and Investments.....	62,885	312,207	791,598	1,592,080	782,145
Receivables, Net:					
Due From Joint Venture.....	0	0	0	267,939	4,000,000
Due From Other Government Agencies.....	445,492	362,947	496,159	0	30,369
Due From Other Funds.....	120,243	120,243	120,243	485,785	222,039
Accounts Receivable.....	2,163,191	2,419,908	1,204,265	1,253,575	1,544,697
Inventory.....	0	0	0	0	41,541
Prepaid Items.....	51,301	39,376	121,765	82,699	156,748
Total Current Assets.....	\$ 3,956,392	\$ 3,572,530	\$ 5,798,214	\$ 5,792,532	\$ 7,745,551
Non-Current Assets:					
Other Restricted Cash and Investments.....	\$ 1,117,285	\$ 1,913,094	\$ 1,237,779	\$ 1,167,569	\$ 2,037,173
Capital Assets:					
Non-Depreciable.....	912,417	1,663,657	1,412,670	798,738	1,605,041
Depreciable, Net.....	25,668,761	24,757,871	25,238,006	26,205,004	26,937,325
Unamortized Bond Issuance Cost.....	252,302	93,473	200,153	259,202	239,820
Investment in Joint Venture.....	680,570	405,678	74,839	(295,302)	(473,288)
Total Non-Current Assets.....	\$28,631,335	\$28,833,773	\$28,163,447	\$28,135,211	\$30,346,071
Total Assets.....	\$32,587,727	\$32,406,303	\$33,961,661	\$33,927,743	\$38,091,622
LIABILITIES:					
Current Liabilities:					
Accounts Payable.....	\$ 324,890	\$ 223,970	\$ 294,877	\$ 303,853	\$ 558,244
Accrued Wages Payable.....	72,327	88,139	103,847	134,374	146,761
Accrued Employee Absences.....	67,000	55,000	60,000	204,000	391,000
Due to Other Funds.....	440,592	490,007	5,467	2,086	292,374
Revenue Bonds Payable Within One Year.....	555,000	175,000	400,000	440,000	450,000
Total Current Liabilities.....	\$ 1,459,809	\$ 1,032,116	\$ 864,191	\$ 1,084,313	\$ 1,838,379
Non-Current Liabilities:					
Accrued Employee Absences.....	\$ 320,800	\$ 348,000	\$ 443,000	\$ 287,100	\$ 460,500
Net Other Post-Employment Benefit Obligations..	0	20,845	52,639	72,957	135,186
Note Payable.....	0	0	0	0	4,000,000
Revenues Bonds Payable.....	5,493,923	2,795,000	6,382,055	8,621,541	8,180,717
Total Non-Current Liabilities.....	\$ 5,814,723	\$ 3,163,845	\$ 6,877,694	\$ 8,981,598	\$12,776,403
Total Liabilities.....	\$ 7,274,532	\$ 4,195,961	\$ 7,741,885	\$10,065,911	\$14,614,782
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt.	\$20,532,255	\$23,451,528	\$19,868,621	\$22,355,160	\$20,361,649
Restricted for Debt Service.....	1,117,285	2,225,301	1,395,031	2,037,167	2,037,173
Unrestricted.....	3,663,655	2,533,513	4,956,124	(530,495)	1,078,018
Total Net Assets.....	\$25,313,195	\$28,210,342	\$26,219,776	\$23,861,832	\$23,476,840

Utility Fund Revenues and Expenditures

	Audited for the Fiscal Year Ending April 30				
	2008	2009	2010	2011(1)	2012(2)
OPERATING REVENUES:					
Charges for Services:					
Sewer Charges.....	\$ 7,229,906	\$ 7,692,088	\$ 7,872,919	\$ 8,448,189	\$ 9,426,813
Solid Waste Charges.....	1,511,626	2,179,263	0	2,655,098	2,576,934
Public Works Revenue.....	0	0	0	680,512	355,602
Fuel system Maintenance Revenue.....	0	0	0	97,207	18,363
Intergovernmental.....	0	0	0	113,749	116,369
Miscellaneous Charges.....	0	0	0	0	75,282
Hydroelectric Revenues.....	82,917	133,371	0	0	0
Total Operating Revenues.....	<u>\$ 8,824,449</u>	<u>\$10,004,722</u>	<u>\$ 7,872,919</u>	<u>\$11,994,755</u>	<u>\$12,569,363</u>
OPERATING EXPENSES:					
Administration.....	\$ 1,792,443	\$ 1,515,084	\$ 1,572,062	\$ 2,024,575	\$ 1,648,657
Sanitary Sewers.....	799,739	941,458	442,261	629,511	583,588
Remote Stations.....	258,583	245,121	282,652	322,435	322,435
Lab and Industrial Services.....	424,433	485,665	474,166	463,000	461,192
Technical Services.....	438,521	656,305	590,119	528,787	618,920
Building Maintenance.....	82,917	400,575	339,283	147,525	217,928
Treatment Charges.....	0	0	0	3,203,020	4,265,071
Sewer Charges.....	2,270,926	2,809,085	2,692,188	0	0
Solid Waste.....	1,529,759	1,898,607	0	2,855,897	4,521,704
Public Works.....	0	0	0	1,734,360	0
Depreciation.....	969,357	942,923	994,179	1,190,726	1,287,837
Total Operating Expenses.....	<u>\$ 8,566,678</u>	<u>\$ 9,894,823</u>	<u>\$ 7,386,910</u>	<u>\$13,099,836</u>	<u>\$13,927,332</u>
Operating Income (Loss).....	\$ 257,771	\$ 109,899	\$ 486,009	\$(1,105,081)	\$(1,357,969)
NON-OPERATING REVENUES (EXPENSES):					
Equity Interest in Joint Venture Operating Income	\$ (450,836)	\$ (274,892)	\$ (330,839)	\$ (370,141)	\$ (177,986)
Gain (Loss) on Disposal of Property and Equipment	0	0	0	0	(73,311)
Interest Income.....	143,514	21,830	1,895	5,822	327
Bond Interest Rebates.....	0	0	0	30,499	73,690
Interest Expense.....	(586,146)	(2,025,094)	(225,243)	(446,419)	(453,072)
Other Expense.....	0	(5,493)	0	0	0
Grant Revenue.....	6,832	0	0	0	0
Other Income.....	132,152	0	10,821	0	0
Total Non-Operating Revenues (Expenses).....	<u>\$ (754,484)</u>	<u>\$ (2,283,649)</u>	<u>\$ (543,366)</u>	<u>\$ (780,239)</u>	<u>\$ (630,352)</u>
Income Before Transfers.....	\$ (496,713)	\$(2,173,750)	\$(57,357)	\$(1,885,320)	\$(1,988,321)
Transfers In (Out).....	14,372	4,931,639	(1,457,346)	(794,966)	139,797
Contributions of Capital Assets.....	0	0	0	1,468,632	0
Special Item.....	0	0	0	(284,986)	0
Change in Net Assets.....	<u>\$ (482,341)</u>	<u>\$ 2,757,889</u>	<u>\$(1,514,703)</u>	<u>\$ (1,496,640)</u>	<u>\$(1,848,524)</u>
Net Assets, May 1.....	<u>\$25,795,536</u> (3)	<u>\$25,452,453</u> (3)	<u>\$27,734,479</u> (3)	<u>\$26,499,569</u> (3)	<u>\$25,002,929</u>
Net Assets, April 30.....	\$25,313,195	\$28,210,342	\$26,219,776	\$25,002,929	\$23,154,405

Notes: (1) Includes Sewer Utility and Solid Waste Utility.
 (2) Kankakee Municipal Utility Fund.
 (3) As restated.

**Utility Fund
 Budget Financial Information**

	Budgeted Twelve Months Ending <u>April 30, 2013</u>	Projected Year Ending <u>April 30, 2013</u>
OPERATING REVENUES:		
Charges For Services	\$11,911,310	\$11,540,687
Other Operating Revenues	<u>640,000</u>	<u>628,254</u>
Total Operating Revenues	\$12,551,310	\$12,168,941
OPERATING EXPENSES:		
Personnel Services	\$ 4,977,441	\$ 5,260,226
Contractual Services	6,445,314	6,796,259
Commodities	1,224,328	935,546
Depreciation	1,255,224	1,255,224
Other Charges	<u>0</u>	<u>0</u>
Total Operating Expenses	\$13,902,307	\$14,247,255
Operating Income	\$(1,350,997)	\$(2,078,314)
NONOPERATING REVENUES (EXPENSES):		
Interest Expense	<u>\$ (450,000)</u>	<u>\$ (450,000)</u>
Total Nonoperating Revenues	\$ (450,000)	\$ (450,000)
Transfers, Net	\$ 1,450,000	\$ 950,000
Change In Net Assets	(350,997)	(1,578,314)
Total Net Assets, Beginning of Year	\$23,476,840	\$23,476,840
Prior Period Adjustment	<u>0</u>	<u>0</u>
Total Net Assets, Ending of Year	\$23,125,843	\$21,898,526

THE CITY

Location, Organization and Government

The City is located approximately 60 miles south of Chicago in the northeastern section of the State of Illinois. The City has extended its boundaries in a southerly direction through annexation. Since 1990, the area of the City has grown from 10.2 square miles to the current 14.5 square miles, an increase of 42% in land area. The City acts as the industrial and service center for the Kankakee metropolitan area. With a current population of 27,537, the City operates as the center of a metropolitan populace of approximately 65,000 people and is the county seat of Kankakee County (the “County”), which has a population of 103,833 people.

The City was incorporated in 1865 and since 1970, by virtue of its population size, has operated as a home rule unit of government pursuant to the Illinois Constitution. The City is governed by an elected mayor and a City Council comprised of 14 aldermen. Two aldermen are elected from each of the City’s seven wards for four-year terms. Mayoral elections are held every four years.

The City provides a full range of public services including public safety (police, fire, and emergency ambulance), street and public infrastructure maintenance, sanitation, sanitary sewer collection, storm drainage, health and social services, culture and recreation, municipal planning and zoning, and general administrative services. Water service is provided by Aqua Illinois, Inc., a private utility.

The Kankakee River

One of the City's greatest assets from an economic and recreational standpoint is the Kankakee River, which flows in a northwesterly direction through the middle of the City from Indiana toward the Illinois River. At the point where it flows through the City, the river is about one-quarter of a mile wide. There are several City parks along the river's edge that provide opportunities for fishing and boating. Many of the City's historic homes with the highest median value are situated in close proximity to the river. During the summer months, the City hosts the National Power Boat Championship Races on the river that draws many boaters and tourists to the area. About seven miles northwest of the City is Kankakee River State Park, which covers an area of about 4,000 acres and attracts thousands of tourists to the area annually.

The Kankakee River serves as the source of drinking water supplied by Aqua Illinois, Inc., a private utility, for the metropolitan area. The river has a dam close to the downtown area of the City, which permits a City owned low-head hydroelectric plant to generate electricity for the operation of the wastewater utility of KRMA.

Transportation

The City is situated in the center of Kankakee County, which is contiguous to Will County on its northern border. One of the nation's major north-south routes, I-57, lies along the eastern side of the City and places the City approximately one hour from Chicago. The City is about 30 miles south of I-80, one of the major east-west highways connecting the east and west coasts of the nation. The City's public road transportation needs are met by Greyhound bus line as well as the City's metropolitan bus service. Railroads serving the County include Illinois Central Gulf (owned by Canadian National Railroad) and Conrail (owned by Norfolk Southern), with Amtrak providing passenger service. The Kankakee Valley Airport is located at the southern edge of the City (two miles south of the City downtown business district) and has hangar space for 76 aircraft. The airport is utilized by general aviation aircraft and corporate planes.

Education

Kankakee School District Number 111 serves the educational needs of students pre-kindergarten through grade twelve. Current enrollment is approximately 5,900. There are several institutions of higher learning located within and near the City. Olivet Nazarene University is a four-year liberal arts facility in Bourbonnais with some 4,600 students enrolled (2,600 are undergraduates). Its campus covers 250 acres and contains 30 buildings. Governor's State University (an upper division university) begins work at the junior baccalaureate level. There are about 7,500 students attending this institution which is situated on 750 acres in University Park. Two year undergraduate programs are offered at Kankakee Community College (KCC) in the City. KCC serves about 3,000 students at its 160 acre campus.

SOCIOECONOMIC INFORMATION

Employment

The following is a list of large employers located in the City and in the surrounding area.

Largest Regional Employers(1)

Name	Product/Service	Approximate Employment
Riverside Healthcare.....	Regional Medical Center.....	2,254
Shapiro Development Center.....	Hospital.....	1,400
St. Mary's Hospital (Provena).....	Hospital.....	1,199
CIGNA (Connecticut General Insurance).....	Insurance Claims Processing.....	900
CSL Behring.....	Pharmaceuticals.....	804
Kankakee School District No. 111.....	Education.....	760
Baker & Taylor Company.....	Book Distribution.....	600
Kankakee County Government.....	Government.....	536
Olivet Nazarene University.....	Private University.....	531
Sears Logistics Services.....	Midwest Product Distribution.....	388
Kankakee Community College.....	Education.....	385
Illinois Veterans' Home.....	Nursing Home.....	335
Van Drunen Farms.....	Freeze Dried Fruit and Vegetables.....	302
City of Kankakee.....	City Government.....	301
Armstrong World Industries, Inc.....	Vinyl Tile.....	270

Note: (1) The City.

The following tables show employment by industry and by occupation for the City, Kankakee County (the "County") and the State of Illinois (the "State") as reported by the U.S. Census Bureau 2007-2011 American Community Survey 5-year estimated values.

Employment By Industry(1)

Classification	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Agriculture, Forestry, Fishing and Hunting, and Mining...	257	2.4%	1,127	2.3%	63,960	1.1%
Construction.....	575	5.4%	3,255	6.5%	343,232	5.7%
Manufacturing.....	1,546	14.5%	6,366	12.7%	775,663	12.8%
Wholesale Trade.....	347	3.3%	2,002	4.0%	196,738	3.3%
Retail Trade.....	1,088	10.2%	6,179	12.4%	659,708	10.9%
Transportation and Warehousing, and Utilities.....	598	5.6%	3,302	6.6%	355,486	5.9%
Information.....	141	1.3%	708	1.4%	135,688	2.2%
Finance and Insurance, and Real Estate and Rental and Leasing	531	5.0%	2,912	5.8%	466,468	7.7%
Professional, Scientific, and Management, Administrative, and Waste Management Services.....	645	6.1%	2,827	5.7%	662,987	11.0%
Educational Services and Health Care and Social Assistance	3,136	29.5%	13,301	26.6%	1,337,455	22.1%
Arts, Entertainment and Recreation and Accommodation and Food Services.....	1,182	11.1%	4,317	8.6%	524,925	8.7%
Other Services, Except Public Administration.....	329	3.1%	2,039	4.1%	288,538	4.8%
Public Administration.....	260	2.4%	1,667	3.3%	232,923	3.9%
Total.....	10,635	100.00%	50,002	100.00%	6,043,771	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

Employment By Occupation(1)

Classification	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Management, Business, Science and Arts	2,454	23.1%	14,433	28.9%	2,167,571	35.9%
Service	2,670	25.1%	9,109	18.2%	1,007,434	16.7%
Sales and Office	2,074	19.5%	12,438	24.9%	1,550,202	25.6%
Natural Resources, Construction, and Maintenance	857	8.1%	5,134	10.3%	474,566	7.9%
Production, Transportation, and Material Moving.....	2,580	24.3%	8,888	17.8%	843,998	14.0%
Total.....	10,635	100.00%	50,002	100.00%	6,043,771	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

Annual Average Unemployment Rates(1)

Calendar Year	The City	Kankakee County	State of Illinois
2003	9.9%	7.3%	6.7%
2004	9.9%	7.5%	6.2%
2005	9.1%	6.5%	5.8%
2006	7.9%	5.6%	4.6%
2007	8.8%	6.5%	5.0%
2008	12.0%	8.8%	6.5%
2009	15.6%	12.1%	10.1%
2010	16.7%	13.1%	10.3%
2011	16.1%	12.2%	8.9%
2012	14.5%	11.1%	8.9%
2013(2)	13.4%	9.8%	8.7%

Notes: (1) Source: Illinois Department of Employment Security.
 (2) Preliminary rates for the month of April 2013.

Building Permits

City Building Permits(1)

Fiscal Year Ended April 30	New Construction						Repair & Remodeling		Total	
	Residential		Commercial		Number	Value	Number	Value	Number	Value
	Number	Value	Number	Value						
2003	3	\$ 462,000	16	\$18,070,177	1,180	\$12,161,363	1,199	\$30,693,540		
2004	8	720,434	10	25,623,138	1,397	9,296,288	1,415	35,639,860		
2005	19	641,116	19	12,510,918	1,304	12,269,698	1,342	25,421,732		
2006	35	2,550,100	15	22,350,619	1,030	11,989,677	1,080	36,890,396		
2007	21	2,023,983	33	23,466,538	1,620	7,505,882	1,674	32,996,403		
2008	22	2,350,600	13	4,986,600	1,542	15,611,622	1,577	22,948,822		
2009	13	1,756,600	8	14,273,414	1,526	14,841,504	1,547	30,871,518		
2010	6	1,028,500	13	58,588,975	1,474	16,420,696	1,493	76,038,171		
2011	4	570,000	6	7,526,222	1,487	11,069,067	1,497	19,165,289		
2012	4	464,000	3	1,667,000	1,513	26,337,745	1,520	28,468,745		

Note: (1) Source: the City.

Housing

The U.S. Census Bureau 5-year estimated values reported that the median value of the City's owner-occupied homes was \$103,000. This compares to \$147,700 for the County and \$198,500 for the State. The following table represents the five year average market value of specified owner-occupied units for the City, the County and the State at the time of the 2007-2011 American Community Survey.

Specified Owner-Occupied Units(1)

Value	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Under \$50,000	388	8.0%	2,514	8.8%	218,208	6.7%
\$50,000 to \$99,999	1,953	40.1%	5,168	18.0%	451,967	13.8%
\$100,000 to \$149,999	1,453	29.9%	7,004	24.4%	464,158	14.2%
\$150,000 to \$199,999	630	12.9%	6,342	22.1%	518,957	15.8%
\$200,000 to \$299,999	275	5.7%	5,355	18.7%	725,004	22.1%
\$300,000 to \$499,999	138	2.8%	1,872	6.5%	613,486	18.7%
\$500,000 to \$999,999	7	0.1%	329	1.1%	234,600	7.2%
\$1,000,000 or more	22	0.5%	116	0.4%	53,191	1.6%
Total	4,866	100.00%	28,700	100.00%	3,279,571	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

Mortgage Status(1)

Value	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Housing Units with a Mortgage	3,202	65.8%	18,715	65.2%	2,272,745	69.3%
Housing Units without a Mortgage	1,664	34.2%	9,985	34.8%	1,006,826	30.7%
Total	4,866	100.00%	28,700	100.00%	3,279,571	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

Income

The U.S. Census Bureau 5-year estimated values reported that the City had a median family income of \$38,692. This compares to \$60,079 for the County and \$69,658 for the State. The following table represents the distribution of family incomes for the City, the County and the State at the time of the 2007-2011 American Community Survey.

Family Income(1)

Income	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Under \$10,000	659	11.1%	1,529	5.4%	131,841	4.2%
\$10,000 to \$14,999	349	5.9%	885	3.1%	86,610	2.7%
\$15,000 to \$24,999	885	14.9%	2,431	8.6%	224,421	7.1%
\$25,000 to \$34,999	780	13.2%	2,253	8.0%	260,262	8.3%
\$35,000 to \$49,999	1,108	18.7%	4,822	17.1%	389,862	12.4%
\$50,000 to \$74,999	903	15.3%	5,571	19.7%	606,737	19.2%
\$75,000 to \$99,999	685	11.6%	4,798	17.0%	486,151	15.4%
\$100,000 to \$149,999	424	7.2%	4,185	14.8%	547,784	17.4%
\$150,000 to \$199,999	112	1.9%	1,228	4.3%	212,016	6.7%
\$200,000 or more	16	0.3%	578	2.0%	207,841	6.6%
Total	5,921	100.00%	28,280	100.00%	3,153,525	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

The U.S. Census Bureau 5-year estimated values reported that the City had a median household income of \$32,458. This compares to \$49,266 for the County and \$56,576 for the State. The following table represents the distribution of household incomes for the City the County and the State at the time of the 2007-2011 American Community Survey.

Household Income(I)

Income	The City		Kankakee County		State of Illinois	
	Number	Percent	Number	Percent	Number	Percent
Under \$10,000.....	1,370	14.2%	2,818	6.9%	324,506	6.8%
\$10,000 to \$14,999.....	831	8.6%	2,227	5.4%	225,927	4.7%
\$15,000 to \$24,999.....	1,539	16.0%	4,914	12.0%	480,204	10.1%
\$25,000 to \$34,999.....	1,384	14.4%	4,199	10.2%	462,115	9.7%
\$35,000 to \$49,999.....	1,516	15.7%	6,603	16.1%	628,998	13.2%
\$50,000 to \$74,999.....	1,489	15.4%	7,671	18.7%	884,623	18.5%
\$75,000 to \$99,999.....	820	8.5%	5,809	14.1%	627,813	13.2%
\$100,000 to \$149,999.....	520	5.4%	4,755	11.6%	656,199	13.7%
\$150,000 to \$199,999.....	118	1.2%	1,399	3.4%	243,765	5.1%
\$200,000 or more.....	53	0.5%	691	1.7%	238,852	5.0%
Total.....	9,640	100.00%	41,086	100.00%	4,773,002	100.0%

Note: (1) Source: U.S. Bureau of the Census, American Community Survey 5-year estimates 2007 to 2011.

Retail Activity

Beginning in fiscal year 2000, the City entered into sales tax sharing agreements with various retail firms. These agreements have begun to provide substantial amounts of additional sales tax revenues to the City. This tax sharing program is based on a company’s willingness to site a purchasing and/or sales approval office within the boundaries of the City. The agreements provide that the City will share a portion of the local share of sales tax generated on the transactions of the partnering companies.

Sales tax receipts exceeded 39% of Governmental Fund Type revenues in fiscal 2012. Following is a summary of the City’s sales tax receipts as collected and disbursed by the State of Illinois.

Retailers’ Occupation, Service Occupation and Use Tax(I)

State Fiscal Year Ending June 30	State Sales Tax Distributions(2)	Annual Percent Change + (-)
2003.....	\$11,087,758	116.53%(3)
2004.....	16,368,446	47.63%
2005.....	22,723,385	38.82%
2006.....	25,873,465	13.86%
2007.....	25,221,096	(2.52%)
2008.....	25,369,037	0.59%
2009.....	23,267,213	(8.28%)
2010.....	21,607,804	(7.13%)
2011.....	19,755,094	(8.57%)
2012.....	19,571,057	(0.93%)
Growth from 2003 to 2012.....		76.51%

- Notes: (1) Source: Illinois Department of Revenue.
 (2) Tax distributions are based on records of the Illinois Department of Revenue relating to the 1% municipal portion of the Retailers’ Occupation, Service Occupation and Use Tax, collected on behalf of the City, less a State administration fee. The municipal 1% includes tax receipts from the sale of food and drugs which are not taxed by the State. The City has a number of contracts with retailers whereby it shares a substantial portion of the local sales taxes generated by those retailers. Legal action has been filed by the City of Chicago and the Regional Transportation Authority contesting these agreements and whether either of the plaintiffs have any right to the sales tax proceeds. The City of Kankakee is in the process of strongly defending the lawsuits and can show that there has been almost no shifting of the sales tax from the jurisdiction of the plaintiffs. The City believes that the contracts it established have not shifted the point of sale from other Illinois locations, and that its agreements are legally valid. See "LITIGATION" herein.
 (3) The 2003 percentage is based on a 2002 sales tax of \$ 5,120,675.

CITY GENERAL DEBT AND PROPERTY ASSESSMENT AND TAX INFORMATION

The City's general debt and property assessment and tax information are for information purposes only. The Bonds will be paid solely from the City's Sewer System.

GENERAL OBLIGATION DEBT INFORMATION

The City has outstanding \$59,747,328 principal amount of general obligation debt. After the sale of the 2013B Bonds, the City will have \$56,867,329 principal amount of general obligation debt. At fiscal year ended April 30, 2012, the City also has outstanding \$2,591,617 of installment notes. The City expects to issue approximately \$6.3 million bonds to refund a portion of the City's outstanding General Obligation Bonds, Series 2006, when market conditions permit.

**General Obligation Bonded Debt(1)
 (Principal Only)**

Calendar Year	Series 2005	Series 2006	Series 2007A	Series 2007B(2)	Series 2008	Series 2009(3)	Series 2011A	Series 2011B	Series 2011C	Series 2012	Series 2012A	Series 2012B	Total Outstanding Debt	Cumulative	
														Principal Amount	Retired Percent
2014 ...	\$ 550,000	\$ 335,000	\$ 240,000	\$ 0	\$ 0	\$ 1,755,000	\$ 105,000	\$ 0	\$365,000	\$ 390,000	\$ 20,000	\$ 130,000	\$ 3,890,000	\$ 3,890,000	6.51%
2015 ...	595,000	655,000	260,000	402,672	0	2,365,000	0	0	255,000	405,000	40,000	160,000	5,137,672	9,027,672	15.11%
2016 ...	220,000	675,000	265,000	350,125	315,000	1,110,000	165,000	0	0	420,000	460,000	1,370,000	5,350,125	14,377,797	24.06%
2017 ...	235,000	375,000	95,000	267,496	425,000	1,210,000	225,000	0	0	435,000	475,000	1,820,000	5,562,496	19,940,293	33.37%
2018 ...	250,000	540,000	110,000	402,036	585,000	2,095,000	0	0	0	450,000	495,000	100,000	5,027,036	24,967,328	41.79%
2019 ...	265,000	585,000	125,000	0	670,000	2,525,000	0	0	0	465,000	510,000	100,000	5,245,000	30,212,328	50.57%
2020 ...	270,000	645,000	140,000	0	900,000	1,245,000	440,000	370,000	0	0	520,000	110,000	4,640,000	34,852,328	58.33%
2021 ...	285,000	730,000	160,000	0	900,000	695,000	600,000	0	0	0	535,000	0	3,905,000	38,757,328	64.87%
2022 ...	175,000	790,000	170,000	0	985,000	730,000	725,000	0	0	0	320,000	0	3,895,000	42,652,328	71.39%
2023 ...	180,000	880,000	180,000	0	1,075,000	760,000	855,000	0	0	0	320,000	0	4,250,000	46,902,328	78.50%
2024 ...	125,000	715,000	600,000	0	1,075,000	790,000	930,000	0	0	0	220,000	0	4,455,000	51,357,328	85.96%
2025 ...	0	1,125,000	635,000	0	0	830,000	955,000	0	0	0	0	0	3,545,000	54,902,328	91.89%
2026 ...	0	0	670,000	0	0	810,000	0	0	0	0	0	0	1,480,000	56,382,328	94.37%
2027 ...	0	0	700,000	0	0	850,000	0	0	0	0	0	0	1,550,000	57,932,328	96.96%
2028 ...	0	0	0	0	0	890,000	0	0	0	0	0	0	890,000	58,822,328	98.45%
2029 ...	0	0	0	0	0	925,000	0	0	0	0	0	0	925,000	59,747,328	100.00%
Total	\$3,150,000	\$8,050,000	\$4,350,000	\$1,422,328	\$6,930,000	\$19,585,000	\$5,000,000	\$370,000	\$620,000	\$2,565,000	\$3,915,000	\$3,790,000	\$59,747,328		

Notes: (1) Source: the City.
 (2) Original principal amount shown for capital appreciation bonds.
 (3) Includes Series 2009A and Series 2009B.

General Obligation Bonded Debt(1)
 (Principal Only)
 (After the sale of the 2013B Bonds)

Calendar Year	Total Outstanding Debt	Less: Defeased		Total Debt	Cumulative Principal Retired	
		Series 2007A	Series 2009B		Amount	Percent
2014	\$ 3,890,000	\$(160,000)	\$(545,000)	\$ 3,185,000	\$ 3,185,000	5.60%
2015	5,137,672	(170,000)	(520,000)	4,447,672	7,632,672	13.42%
2016	5,350,125	(175,000)	(535,000)	4,640,125	12,272,797	21.58%
2017	5,562,496	0	(560,000)	5,002,496	17,275,293	30.38%
2018	5,027,036	0	(215,000)	4,812,036	22,087,329	38.84%
2019	5,245,000	0	0	5,245,000	27,332,329	48.06%
2020	4,640,000	0	0	4,640,000	31,972,329	56.22%
2021	3,905,000	0	0	3,905,000	35,877,329	63.09%
2022	3,895,000	0	0	3,895,000	39,772,329	69.94%
2023	4,250,000	0	0	4,250,000	44,022,329	77.41%
2024	4,455,000	0	0	4,455,000	48,477,329	85.25%
2025	3,545,000	0	0	3,545,000	52,022,329	91.48%
2026	1,480,000	0	0	1,480,000	53,502,329	94.08%
2027	1,550,000	0	0	1,550,000	55,052,329	96.81%
2028	890,000	0	0	890,000	55,942,329	98.37%
2029	925,000	0	0	925,000	56,867,329	100.00%
Total	\$59,747,329	\$(505,000)	\$(2,375,000)	\$56,867,329		

Note: (1) Source: the City.

Detailed Overlapping Bonded Debt(1)
 (As of June 17, 2013)

	Outstanding Debt	Applicable to City	
		Percent(2)	Amount
Schools:			
School District No. 61	\$ 3,225,000	3.96%	\$ 127,710
High School District No. 307	13,360,000	1.21%	161,656
Herscher Community Unit School District No. 2	9,460,000	0.70%	66,220
Community Unit School District No. 4 (Clifton)	9,413,792	6.44%	606,248
Kankakee School District No. 111	10,061,099	65.66%	6,606,118
Kankakee Community College 520	7,570,000	12.88%	975,016
Total Schools			\$8,542,968
Others:			
Kankakee County(3)	\$ 0	12.88%	\$ 0
Bourbonnais Park District	2,805,000	1.38%	38,709
Total Others			\$ 38,709
Total Schools and Others Overlapping Bonded Debt			\$8,581,677

Notes: (1) Source: Kankakee County Clerk.
 (2) Overlapping debt percentages are based on levy year 2012 EAVs.
 (3) The County's bonded debt totals \$22,835,000 all of which is self-supporting.

Statement of Bonded Indebtedness

	Amount Applicable	Ratio To		Per Capita (2010 Census 27,537)
		Equalized Assessed	Estimated Actual	
City EAV of Taxable Property, 2012 (1).....	\$252,402,916	100.00%	33.33%	\$ 9,165.96
Estimated Actual Value, 2012.....	\$757,208,748	300.00%	100.00%	\$27,497.87
Direct Bonded Debt(2).....	\$ 56,867,329	22.53%	7.51%	\$ 2,065.12
Less: Self-Supporting	(17,620,000)	(6.98%)	(2.33%)	(639.87)
Net Direct Bonded Debt.....	\$ 39,247,329	15.55%	5.18%	\$ 1,425.26
Overlapping Bonded Debt(3):				
Schools.....	\$ 8,542,968	3.38%	1.13%	\$ 310.24
Others.....	38,709	0.02%	0.01%	1.41
Total Overlapping Bonded Debt.....	\$ 8,581,677	3.40%	1.13%	\$ 311.64
Total Direct and Overlapping Bonded Debt(3)	\$ 47,829,006	18.95%	6.32%	\$ 1,736.90

Notes: (1) Source: Kankakee County Clerk.
 (2) Does not include bonds expected to be defeased by 2013B Bonds.
 (3) Overlapping bonded debt as of June 17, 2013.

PROPERTY ASSESSMENT AND TAX INFORMATION

For the 2012 levy year, the City's EAV was comprised of approximately 58% residential, 9% industrial, 32% commercial, and 1% farm and railroad property valuations.

Equalized Assessed Valuation(1)

Property Class	Levy Years				
	2008	2009	2010	2011	2012
Residential.....	\$183,736,732	\$182,470,050	\$182,769,045	\$163,923,583	\$147,614,347
Farm.....	467,203	427,774	448,324	373,612	371,033
Commercial.....	81,297,766	83,328,334	82,501,453	66,616,546	81,104,048
Industrial.....	20,377,225	21,645,339	21,675,632	18,233,200	21,057,912
Railroad.....	1,381,705	1,682,103	1,887,273	2,185,288	2,255,576
Total.....	\$287,260,631	\$289,553,600	\$289,281,727	\$251,332,229	\$252,402,916
Percent Change + (-)	1.00%(2)	0.80%	(0.09%)	(13.12%)	0.43%

Notes: (1) Source: Kankakee County Clerk. Includes value in tax increment districts.
 (2) The 2008 percentage change based on a 2007 EAV of \$284,408,370.

Representative Tax Rates(1)
 (Per \$100 EAV)

	Levy Years				
	2008	2009	2010	2011	2012
City Rates:					
General Corporate.....	\$ 0.008	\$ 0.000	\$0.000	\$0.000	\$0.000
Fire Protection.....	0.087	0.086	0.163	0.183	0.201
Police Protection.....	0.067	0.067	0.173	0.194	0.213
School Crossing Guard.....	0.010	0.010	0.011	0.012	0.013
Liability Insurance.....	0.370	0.369	0.401	0.452	0.496
Audit.....	0.013	0.013	0.015	0.017	0.019
Parks.....	0.014	0.014	0.000	0.000	0.000
Band.....	0.006	0.006	0.006	0.007	0.007
I.M.R.F.....	0.203	0.280	0.295	0.323	0.355
Library Fund.....	0.621	0.624	0.623	0.674	0.716
Firefighter's Pension.....	0.547	0.797	0.753	0.826	0.936
Police Pension.....	0.501	0.699	0.661	0.792	0.897
Debt Service.....	1.550	1.812	1.773	1.961	2.295
Unemployment Insurance.....	0.000	0.008	0.006	0.007	0.008
Total City Rates.....	\$ 3.997	\$ 4.785	\$4.880	\$5.448	\$6.156
Kankakee County.....	0.816	0.807	0.833	0.890	0.953
Kankakee County Forest Preserve District...	0.056	0.057	0.059	0.060	0.060
Kankakee Valley Airport Authority.....	0.039	0.038	0.038	0.040	0.041
Kankakee Township.....	0.511	0.515	0.533	0.569	0.618
Kankakee Valley Park District.....	0.518	0.519	0.526	0.568	0.618
School District Number 111.....	4.294	4.319	4.325	4.695	4.918
Community College District Number 520.....	0.377	0.384	0.396	0.404	0.417
Total Rates(2).....	\$10.608	\$11.424	\$11.590	\$12.674	\$13.781

- Notes: (1) Source: Kankakee County Clerk.
 (2) Representative tax rates for other government units are from Kankakee Township tax code 16003, which represents 78.83% of the City's 2012 EAV.

Tax Extensions and Collections(1)

Levy Year	Coll. Year	Taxes Extended	Total Collections	
			Amount	Percent
2007	2008	\$10,015,944	\$ 9,822,065	98.06%
2008	2009	10,438,232	10,325,580	98.92%
2009	2010	12,436,212	12,308,540	98.97%
2010	2011	13,262,716	13,231,403	99.76%
2011	2012	13,692,580	13,352,944	97.52%
2012	2013	14,554,094	-----In Collection -----(2)	

- Notes: (1) Source: the City.
 (2) Taxes are due June and September.

Principal Taxpayers(1)

<u>Taxpayer Name</u>	<u>Business/Service</u>	<u>2012 EAV(2)</u>
Cognis Corp	Chemicals	\$ 4,792,833
Walmart	Retail	3,658,733
Armstrong World Industries	Vinyl Tile	2,864,843
Riverside Senior Living	Elderly Housing	2,849,634
Provena Properties	Real Property	2,702,837
IKO Midwest, Inc.	Real Property	2,637,716
Riverwoods Preservation LP	Elderly Housing	2,609,679
Space Center Chicago Inc	Food Production	2,557,311
Cor Unum	Elderly Housing	2,169,030
Riverstone Hotel Partners LLC.....	Hotel	<u>2,033,130</u>
Total		\$28,875,746
Ten Largest Taxpayers as a Percent of the City's 2012 EAV (\$252,402,916).....		11.44%

Notes: (1) Source: Kankakee County Treasurer.
 (2) Every effort has been made to seek out and report the largest taxpayers. However, many of the taxpayers listed contain multiple parcels and it is possible that some parcels and their valuations have been overlooked. The 2012 EAV is the most current available.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURE

Tax Levy and Collection Procedures

Local assessment officers determine the assessed valuation of taxable real property and railroad property not held or used for railroad operations. The Illinois Department of Revenue (the "Department") assesses certain other types of taxable property, including railroad property held or used for railroad operations. Local assessment officers' valuation determinations are subject to review at the county level and then, in general, to equalization by the Department. Such equalization is achieved by applying to each county's assessments a multiplier determined by the Department. The purpose of equalization is to provide a common basis of assessments among counties by adjusting assessments toward the statutory standard of 33-1/3% of fair cash value. Farmland is assessed according to a statutory formula which takes into account factors such as productivity and crop mix. Taxes are extended against the assessed values after equalization.

Property tax levies of each taxing body are filed in the office of the county clerk of each county in which territory of that taxing body is located. The county clerk computes the rates and amount of taxes applicable to taxable property subject to the tax levies of each taxing body and determines the dollar amount of taxes attributable to each respective parcel of taxable property. The county clerk then supplies to the appropriate collecting officials within the county the information needed to bill the taxes attributable to the various parcels therein. After the taxes have been collected, the collecting officials distribute to the various taxing bodies their respective shares of the taxes collected. Taxes levied in one calendar year are due and payable in two installments during the next calendar year. Taxes that are not paid when due, or that are not paid by mail and postmarked on or before the due date, are subject to a penalty of 1-1/2% per month until paid. Unpaid property taxes, together with penalties, interest and costs, constitute a lien against the property subject to the tax.

Exemptions

An annual General Homestead Exemption (the "General Homestead Exemption") provides that the Equalized Assessed Valuation ("EAV") of certain property owned and used for residential purposes ("*Residential Property*") may be reduced by the amount of any increase over the 1977 EAV, up to a maximum reduction of \$3,500 for assessment years prior to assessment year 2004 in counties with less than 3,000,000 inhabitants, and a maximum reduction of \$5,000 for assessment year 2004 through 2007 in all counties. Additionally, the maximum reduction is \$5,500 for assessment year 2008 and the maximum reduction is \$6,000 for assessment year 2009 and thereafter in all counties.

The Homestead Improvement Exemption applies to Residential Properties that have been improved or rebuilt in the 2 years following a catastrophic event. The exemption is limited to \$45,000 through December 31, 2003, and \$75,000 per year beginning May 1, 2004 and thereafter, to the extent the assessed value is attributable solely to such improvements or rebuilding.

Additional exemptions exist for senior citizens. The Senior Citizens Homestead Exemption (“*Senior Citizens Homestead Exemption*”) operates annually to reduce the EAV on a senior citizen’s home for assessment years prior to 2004 by \$2,000 in counties with less than 3,000,000 inhabitants. For assessment years 2004 and 2005, the maximum reduction is \$3,000 in all counties. For assessment years 2006 and 2007, the maximum reduction is \$3,500 in all counties. In addition, for assessment year 2008 and thereafter, the maximum reduction is \$4,000 for all counties. Furthermore, beginning with assessment year 2003, for taxes payable in 2004, property that is first occupied as a residence after May 1 of any assessment year by a person who is eligible for the Senior Citizens Homestead Exemption must be granted a pro rata exemption for the assessment year based on the number of days during the assessment year that the property is occupied as a residence by a person eligible for the exemption.

A Senior Citizens Assessment Freeze Homestead Exemption (“*Senior Citizens Assessment Freeze Homestead Exemption*”) freezes property tax assessments for homeowners, who are 65 and older and receive a household income not in excess of the maximum income limitation. The maximum income limitation is \$35,000 for years prior to 1999, \$40,000 for assessment years 1999 through 2003, \$45,000 for assessment years 2004 and 2005, \$50,000 from assessment years 2006 and 2007 and for assessments year 2008 and after, the maximum income limitation is \$55,000. In general, the Senior Citizens Assessment Freeze Homestead Exemption limits the annual real property tax bill of such property by granting to qualifying senior citizens an exemption as to a portion of the valuation of their property. In counties with a population of 3,000,000 or more, the exemption for all assessment years is equal to the EAV of the residence in the assessment year for which application is made less the base amount. Furthermore, for those counties with a population of less than 3,000,000, the Senior Citizens Assessment Freeze Homestead Exemption is as follows: through assessment year 2005 and for assessment year 2007 and later, the exempt amount is the difference between (i) the current EAV of their residence and (ii) the base amount, which is the EAV of a senior citizen’s residence for the year prior to the year in which he or she first qualifies and applies for the Exemption (plus the EAV of improvements since such year). For assessment year 2006, the amount of the Senior Citizens Assessment Freeze Homestead Exemption phases out as the amount of household income increases. The amount of the Senior Citizens Assessment Freeze Homestead Exemption is calculated by using the same formula as above, and then multiplying the resulting value by a ratio that varies according to household income.

Another exemption available to disabled veterans operates annually to exempt up to \$70,000 of the Assessed Valuation of property owned and used exclusively by such veterans or their spouses for residential purposes. Also, certain property is exempt from taxation on the basis of ownership and/or use, such as public parks, not-for-profit schools and public schools, churches, and not-for-profit hospitals and public hospitals. However, individuals claiming exemption under the Disabled Persons’ Homestead Exemption (“*Disabled Persons’ Homestead Exemption*”) or the Disabled Veterans Standard Homestead Exemption (“*Disabled Veterans Standard Homestead Exemption*”) cannot claim the aforementioned exemption.

Furthermore, beginning with assessment year 2007, the Disabled Persons’ Homestead Exemption provides an annual homestead exemption in the amount of \$2,000 for property that is owned and occupied by certain persons with a disability. However, individuals claiming exemption as a disabled veteran or claiming exemption under the Disabled Veterans Standard Homestead Exemption cannot claim the aforementioned exemption.

In addition, the Disabled Veterans Standard Homestead Exemption provides disabled veterans an annual homestead exemption starting with assessment year 2007 and thereafter. Specifically, (i) those veterans with a service-connected disability of 75% are granted an exemption of \$5,000 and (ii) those veterans with a service-connected disability of less than 75%, but at least 50% are granted an exemption of \$2,500. Furthermore, the veteran's surviving spouse is entitled to the benefit of the exemption, provided that the spouse has legal or beneficial title of the homestead, resides permanently on the homestead and does not remarry. Moreover, if the property is sold by the surviving spouse, then an exemption amount not to exceed the amount specified by the current property tax roll may be transferred to the spouse's new residence, provided that it is the spouse's primary residence and the spouse does not remarry. However, individuals claiming exemption as a disabled veteran or claiming exemption under the Disabled Persons' Homestead Exemption cannot claim the aforementioned exemption.

Beginning with assessment year 2007, the Returning Veterans' Homestead Exemption ("*Returning Veterans' Homestead Exemption*") is available for property owned and occupied as the principal residence of a veteran in the assessment year the veteran returns from an armed conflict while on active duty in the United States armed forces. This provision grants a homestead exemption of \$5,000, which is applicable in all counties. In order to apply for the Returning Veterans' Homestead Exemption, the individual must pay real estate taxes on the property, own the property or have either a legal or an equitable interest in the property, "or a leasehold interest of land on which a single family residence is located, which is occupied as a principle residence of a veteran returning from an armed conflict involving the armed forces of the United States who has an ownership interest therein, legal, equitable or as a lessee, and on which the veteran is liable for the payment of property taxes." Those individuals eligible for the Returning Veterans' Homestead Exemption may claim the Returning Veterans' Homestead Exemption, in addition to other homestead exemptions, unless otherwise noted.

Property Tax Extension Limitation Law

The Property Tax Extension Limitation Law (the "Limitation Law") limits the amount of the annual increase in property taxes to be extended for certain Illinois non-home rule units of government. In general, the Limitation Law restricts the amount of such increases to the lesser of 5% or the percentage increase in the Consumer Price Index during the calendar year preceding the levy year. Currently, the Limitation Law applies only to and is a limitation upon all non-home rule taxing bodies in Cook County, the five collar counties (DuPage, Kane, Lake, McHenry and Will) and several downstate counties.

Home rule units, including the City, are exempt from the limitations contained in the Limitation Law. If the Limitation Law were to apply in the future to the City, the limitations set forth therein will not apply to any taxes levied by the City to pay the principal of and interest on the Bonds.

Truth in Taxation Law

Legislation known as the Truth in Taxation Law (the "Law") limits the aggregate amount of certain taxes which can be levied by, and extended for, a taxing district to 105% of the amount of taxes extended in the preceding year unless specified notice, hearing and certification requirements are met by the taxing body. The express purpose of the Law is to require published disclosure of, and hearing upon, an intention to adopt a levy in excess of the specified levels.

FINANCIAL INFORMATION

Financial Reports

The Government Finance Officers Association of the United States and Canada has awarded the City its Certificate of Achievement for Excellence in Financial Reporting for fifteen consecutive years. The City's financial statements are audited annually by certified public accountants. The City's financial statements are completed on a modified accrual basis of accounting consistent with generally accepted accounting principles applicable to governmental entities. See **APPENDIX A** for more detail.

No Consent or Updated Information Requested of the Auditor

The tables and excerpts (collectively, the "Excerpted Financial Information") contained in this "**FINANCIAL INFORMATION**" section and in **APPENDIX A** are from the audited financial statements of the City, including the audited financial statements for the fiscal year ended April 30, 2012 (the "2012 Audit"). The 2012 Audit has been prepared by Groskreutz, Schmidt, Abraham & Eshleman, Accountants and Consultants, Kankakee, Illinois (the "Auditor"), and approved by formal action of the City Council. The City has not requested the Auditor to update information contained in the Excerpted Financial Information; nor has the City requested that the Auditor consent to the use of the Excerpted Financial Information in this Final Official Statement. Other than as expressly set forth in this Final Official Statement, the financial information contained in the Excerpted Financial Information has not been updated since the date of the 2012 Audit. The inclusion of the Excerpted Financial Information in this Final Official Statement in and of itself is not intended to demonstrate the fiscal condition of the City since the date of the 2012 Audit. Questions or inquiries relating to financial information of the City since the date of the 2012 Audit should be directed to the City.

Summary Financial Information

The following tables are summaries and do not purport to be the complete audits, copies of which are available upon request. See **APPENDIX A** for excerpts of the City's 2012 fiscal year audit.

**Statement of Net Assets
 Governmental Activities**

	Audited As of April 30				
	2008	2009	2010	2011	2012
ASSETS:					
Cash and Investments.....	\$ 13,919,764	\$ 13,543,790	\$ 7,141,075	\$ 11,131,824	\$ 8,681,821
Receivables, Net:					
Property Taxes.....	11,511,580	12,199,112	14,637,311	13,747,061	14,215,390
Utility Taxes.....	578,450	426,659	507,422	502,850	468,701
Due From Other Governmental Agencies.....	7,296,131	6,276,847	6,336,438	6,551,503	6,001,707
Due From Component Units.....	74,266	222,567	220,554	219,943	72,951
Due From Fiduciary Funds.....	190	30	0	1,100	0
Internal Balances.....	320,349	369,764	304,580	28,201	70,335
Accounts.....	1,779,349	1,151,181	1,086,769	1,047,258	738,779
Special Assessments.....	3,113,000	2,855,500	2,587,000	2,307,500	2,016,500
Materials and Supplies Inventory.....	48,315	20,734	33,946	1,863	2,859
Prepaid Items.....	766,693	911,930	481,958	532,792	410,593
Capital Assets:					
Non-Depreciable.....	10,587,574	16,920,392	6,795,473	6,735,113	6,207,755
Depreciable.....	65,079,908	69,422,168	82,873,637	81,333,379	80,065,137
Unamortized Bond Issuance Cost.....	749,005	1,362,788	1,265,459	1,330,372	1,301,883
Total Assets.....	<u>\$115,824,574</u>	<u>\$125,683,462</u>	<u>\$124,271,622</u>	<u>\$125,470,759</u>	<u>\$120,254,411</u>
LIABILITIES:					
Accounts Payable.....	\$ 9,428,673	\$ 7,541,391	\$ 6,801,466	\$ 6,471,060	\$ 5,097,220
Accrued Wages Payable.....	553,344	585,526	600,826	539,906	533,599
Interest Payable.....	830,160	937,290	964,100	951,800	877,700
Due To Component Units.....	0	0	0	9,219	17,536
Due to Other Government Agencies.....	0	0	0	346	1,290
Deferred Revenue.....	11,763,394	12,441,580	14,873,580	13,931,840	14,546,630
Deferred Special Assessment.....	3,113,000	2,855,500	2,587,000	2,307,500	2,016,500
Long-Term Liabilities:					
Due Within One Year.....	4,667,938	5,236,232	6,516,732	6,389,982	6,237,697
Due Within More Than One Year.....	69,519,615	87,464,890	82,525,575	84,249,189	80,622,630
Total Liabilities.....	<u>\$ 99,876,124</u>	<u>\$117,062,409</u>	<u>\$114,869,279</u>	<u>\$114,850,842</u>	<u>\$109,950,802</u>
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt .	\$ 40,726,527	\$ 45,280,829	\$ 43,720,157	\$ 46,857,789	\$ 42,729,716
Restricted For:					
Capital Projects.....	5,384,813	7,850,799	4,385,453	7,963,134	5,009,123
Debt Services.....	935,547	1,027,220	292,011	322,400	425,560
Economic Development.....	2,422,505	1,924,214	1,322,031	1,054,571	886,689
Street Maintenance Programs.....	116,827	19,258	316,396	227,559	1,258,897
Unrestricted.....	<u>(33,637,769)</u>	<u>(47,481,267)</u>	<u>(40,633,705)</u>	<u>(45,805,536)</u>	<u>(40,006,376)</u>
Total Net Assets.....	<u>\$ 15,948,450</u>	<u>\$ 8,621,053</u>	<u>\$ 9,402,343</u>	<u>\$ 10,619,917</u>	<u>\$ 10,303,609</u>

**Statement of Activities
 Expenses (Net of Program Revenues)**

	Audited for the Fiscal Year Ended April 30				
	2008	2009	2010	2011	2012
PRIMARY GOVERNMENT:					
Government Activities:					
General Government.....	\$ (2,335,345)	\$ (7,321,265)	\$ (7,026,259)	\$ (7,154,722)	\$ (6,862,277)
Public Safety.....	(12,436,558)	(12,731,163)	(14,832,479)	(15,079,220)	(15,644,040)
Public Works.....	(2,312,039)	(3,268,506)	(1,874,666)	0	
Highways and Streets.....	(1,981,334)	(1,231,534)	1,542,395	(59,154)	(2,210,499)
Community Development.....	304,467	309,925	292,020	232,054	217,637
Culture and Recreation.....	(62,147)	(310,190)	(65,116)	(13,000)	(227,382)
Economic Development.....	(23,484,194)	(18,816,343)	(16,524,109)	(15,089,079)	(12,675,039)
Interest and Fiscal Charges.....	(2,259,401)	(2,812,337)	(2,824,410)	(2,930,090)	(2,788,165)
Total Primary Government.....	<u>\$(44,566,551)</u>	<u>\$(46,181,413)</u>	<u>\$(41,312,624)</u>	<u>\$(40,093,211)</u>	<u>\$(40,189,765)</u>
GENERAL REVENUES:					
Property Taxes Levied for General Purposes.....	\$10,730,743	\$11,440,440	\$12,135,164	\$14,570,861	\$13,539,999
Special Assessments.....	0	257,500	268,500	279,500	291,000
State Income Tax.....	2,531,188	2,504,837	2,183,439	2,143,382	2,242,843
Local Use.....	385,926	390,228	326,948	395,015	423,094
Illinois Retailers' Tax.....	26,611,558	24,419,114	21,098,621	19,814,423	18,156,743
Utility Taxes.....	3,480,888	3,359,780	3,390,774	3,630,413	3,856,223
Replacement Tax.....	844,254	741,325	617,091	730,290	644,096
Intergovernmental.....	50,000	50,000	50,000	50,000	50,000
Investment Income.....	948,823	361,543	138,247	115,707	106,914
Other.....	<u>56,584</u>	<u>260,888</u>	<u>427,784</u>	<u>418,221</u>	<u>880,603</u>
Total General Revenues.....	<u>\$45,639,964</u>	<u>\$43,785,655</u>	<u>\$40,636,568</u>	<u>\$42,147,812</u>	<u>\$40,191,515</u>
Transfers.....	<u>(14,372)</u>	<u>(4,931,639)</u>	<u>1,457,346</u>	<u>(388,680)</u>	<u>(139,797)</u>
Change in Net Assets.....	\$ 1,059,041	\$(7,327,397)	\$ 781,290	\$ 1,665,921	\$ (138,047)
Net Assets, Beginning.....	\$14,898,406	\$15,948,450	\$ 8,621,053	\$ 9,402,343	\$10,619,917
Prior Period Adjustment.....	<u>(8,997)</u>	<u>0</u>	<u>0</u>	<u>(448,347)</u>	<u>(178,261)</u>
Net Assets, Ending.....	<u>\$15,948,450</u>	<u>\$ 8,621,053</u>	<u>\$ 9,402,343</u>	<u>\$10,619,917</u>	<u>\$10,303,609</u>

General Fund Balance Sheet

Audited As of April 30

	2008	2009	2010	2011	2012
ASSETS:					
Cash and Investments.....	\$ 1,589,688	\$ 1,187,819	\$ 96,514	\$ 349,924	\$ 455,481
Receivable, Net:					
Property Taxes.....	4,055,762	4,202,487	5,358,797	5,972,933	6,288,543
Utility Taxes.....	578,450	426,659	507,422	502,850	468,701
Due From Other Governmental Agencies...	6,920,150	6,004,238	5,935,876	6,257,133	5,508,486
Due From Component Units.....	59,782	57,622	68,668	68,236	63,519
Due From Fiduciary Funds.....	190	30	0	1,100	0
Due From Other Funds.....	1,536,632	1,308,399	847,196	529,810	453,629
Accounts.....	340,915	298,661	248,829	209,007	200,115
Inventories.....	48,315	20,734	33,946	1,863	2,859
Prepaid Items.....	766,693	911,930	481,958	532,792	410,593
Total Assets.....	<u>\$15,896,577</u>	<u>\$14,418,579</u>	<u>\$13,579,206</u>	<u>\$14,425,648</u>	<u>\$13,851,926</u>
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Accounts Payable.....	\$ 7,970,278	\$ 7,221,614	\$ 6,436,567	\$ 6,198,829	\$ 4,873,665
Accrued Payroll.....	513,759	547,050	558,260	508,413	502,847
Due to Other Governmental Agencies.....	0	0	0	0	1,290
Due to Other Funds.....	0	0	0	248	27,289
Deferred Revenue.....	<u>4,307,576</u>	<u>4,444,953</u>	<u>5,595,066</u>	<u>6,157,711</u>	<u>6,641,136</u>
Total Liabilities.....	<u>\$12,791,613</u>	<u>\$12,213,617</u>	<u>\$12,589,893</u>	<u>\$12,865,201</u>	<u>\$12,046,227</u>
Fund Equity:					
Reserved For Prepaid Insurance.....	\$ 766,693	\$ 911,930	\$ 481,958	\$ 532,792	\$ 0
Reserved For Inventories.....	48,315	20,734	33,946	1,863	0
Unreserved-Undesignated.....	2,289,956	1,272,298	473,409	1,025,792	0
Nonspendable.....	0	0	0	0	413,452
Unassigned (Deficit).....	0	0	0	0	1,392,247
Total Fund Equity.....	<u>\$ 3,104,964</u>	<u>\$ 2,204,962</u>	<u>\$ 989,313</u>	<u>\$ 1,560,447</u>	<u>\$ 1,805,699</u>
Total Liabilities and Fund Equity.....	<u>\$15,896,577</u>	<u>\$14,418,579</u>	<u>\$13,579,206</u>	<u>\$14,425,648</u>	<u>\$13,851,926</u>

**General Fund
 Revenues and Expenditures**

	Audited Fiscal Year Ending April 30				
	2008	2009	2010	2011	2012
REVENUES:					
Taxes.....	\$37,591,886(1)	\$35,437,201(1)	\$31,793,521(1)	\$32,048,249 (1)	\$31,247,666
Licenses and Permits.....	1,070,343	1,122,222	1,228,945	1,309,395	1,368,735
Intergovernmental.....	612,868	393,274	618,443	718,426	806,651
Charges for Services.....	528,359	741,914	820,173	296,734	199,573
Fines and Fees.....	537,749	449,781	410,583	404,835	369,452
Interest Income.....	201,602	33,403	2,931	2,404	1,232
Miscellaneous.....	87,582	261,767	414,742	818,126	882,243
Total Revenues.....	\$40,630,389	\$38,439,562	\$35,289,338	\$35,598,169	\$34,875,552
EXPENDITURES: -					
General Government.....	\$ 5,805,809	\$ 5,868,673	\$ 5,862,509	\$ 5,855,027	\$ 5,288,153
Public Safety.....	14,035,753	14,798,160	15,156,661	16,026,015	16,654,352
Public Works.....	2,182,207	2,415,695	2,270,436	0	0
Community Development.....	6,067	5,690	4,536	0	0
Economic Development.....	20,109,951(1)	17,617,181(1)	15,210,630(1)	13,563,032 (1)	11,844,806
Debt Service.....	21,593	21,598	10,000	10,000	10,000
Total Expenditures.....	\$42,161,380	\$40,726,997	\$38,514,772	\$35,454,074	\$33,797,311
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	\$(1,530,991)	\$(2,287,435)	\$(3,225,434)	\$ 144,095	\$ 1,078,241
OTHER FINANCING SOURCES (USES):					
Operating Transfers In.....	\$ 1,967,563	\$ 1,857,711 (2)	\$ 2,216,562 (4)	\$ 1,975,386 (6)	\$ 141,429
Operating Transfers Out.....	(567,487)	(470,278)(3)	(206,777)(5)	(1,100,000)(7)	(1,200,000)(8)
Proceeds from Disposal of Capital Assets	0	0	0	0	0
Total Other Financing Sources (Uses) ..	\$ 1,400,076	\$ 1,387,433	\$ 2,009,785	\$ 875,386	\$(1,058,571)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditure and Other Financing Uses.....	\$ (130,915)	\$ (900,002)	\$(1,215,649)	\$ 1,019,481	\$ 19,670
Fund Balance, Beginning.....	\$ 3,244,876	\$ 3,104,964	\$ 2,204,962	\$ 989,313	\$ 1,560,447
Prior Period Adjustment.....	(8,997)	0	0	(448,347)	225,582
Fund Balance, Ending.....	\$ 3,104,964	\$ 2,204,962	\$ 989,313	\$ 1,560,447	\$ 1,805,699

- Notes: (1) The City implemented a sales tax sharing incentive program (the "Program") in fiscal 2000 in which the City returns a substantial portion of the sales tax generated from the Program to its participants as an economic development incentive. This table reports the gross sales tax amount as revenues and the related incentives as expenditures. (See **Retail Activity** herein for additional description of the Program.) The increase in taxes is a result of this Program.
- (2) The Capital Projects Fund transferred \$77,858 to provide for capital related costs incurred on behalf of Capital Projects Fund; Kankakee Municipal Utility Fund transferred \$582,948 to provide for payments in arrears to the Debt Service Fund for 1992A General Obligation Bonds and \$116,000 as payment in lieu of taxes; \$1,080,905 was transferred from various Tax Increment Financing Districts (the "Districts") to provide for the public safety costs incurred on behalf of the Districts.
- (3) The General Fund transferred \$455,087 to the Debt Service Fund for bond and interest retirement and \$15,191 to the Park Fund to cover its fund deficit.
- (4) The Sewer Utility transferred \$116,000 as payment in lieu of taxes and \$1,051,833 to provide for payments in arrears to the Debt Service Fund for 1992A General Obligation Bond; \$1,048,729 was transferred from various Tax Increment Financing Districts (the "Districts") to provide for the public safety costs incurred on behalf of the Districts.
- (5) The General Fund transferred \$57,931 to the Debt Service Fund to provide for bond and interest retirement and \$132,290 to the Illinois Municipal Retirement Fund and \$16,556 to the Park Fund to cover their fund deficits.
- (6) The Sewer Utility transferred \$120,000 as payment in lieu of taxes and \$832,811 to provide for payment in arrears to the Debt Service Fund for the 1992A General Obligation Bonds; \$873,729 was transferred from various Tax Increment Financing Districts to pay for public safety costs.
- (7) Transfer to the Solid Waste Utility Fund to provide for the operations of the Public Works Department.
- (8) Transfer to the Kankakee Environmental Services Utility Fund to provide for the operations of the Public Works Department.

Budgeted and Estimated General Fund Financial Information(I)

	Budget Twelve Months Ended <u>4/30/2013</u>	Projected Twelve Months Ended <u>4/30/2013</u>	Budget Twelve Months Ending <u>4/30/2014</u>
REVENUES:			
Taxes.....	\$36,345,024	\$31,806,012	\$36,954,579
Licenses, Permits and Fees.....	1,454,000	1,533,353	1,299,000
Charges for Services.....	510,000	309,897	190,000
Fines and Penalties.....	434,500	327,256	400,000
Intergovernmental.....	366,178	548,011	366,178
Miscellaneous.....	<u>470,500</u>	<u>380,592</u>	<u>420,500</u>
Total Revenues.....	\$39,580,202	\$34,905,121	\$39,630,257
EXPENDITURES:			
Administration.....	\$ 6,209,428	\$ 4,894,293	\$ 5,650,208
Public Safety.....	15,670,774	16,814,405	16,903,804
Economic Development.....	<u>16,500,000</u>	<u>12,047,105</u>	<u>16,500,000</u>
Total Expenditures.....	\$38,380,202	\$33,755,803	\$39,054,012
Excess (Deficiency) of Revenues			
Over (Under) Expenditures.....	\$ 1,200,000	\$ 1,149,318	\$ 576,245
Transfers (Net).....	<u>(950,000)</u>	<u>(950,000)</u>	<u>(330,000)</u>
Total.....	\$ 250,000	\$ 199,318	\$ 246,245

Note: (1) Unaudited.

EMPLOYEE RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS OBLIGATIONS

The Illinois Municipal Retirement Fund (IMRF) is held by the State of Illinois, which sets the annual contribution by the City. As of December 31, 2011, the most recent actuarial valuation date, the City’s IMRF plan was 75.62 percent funded.

The police and fire pension plans (the “Plans”) are accounted for as Pension Trust Funds and do not have separate audited financial reports. Currently, the Plans are not fully funded.

The City provides post-employment health care benefits (OPEB) for retired employees through a single employer defined benefit plan (“Benefit Plan”). Currently the Benefit Plan is not fully funded. The Benefit Plan does not issue a separate financial report and its activities are accounted for in the City’s General Fund and the Kankakee Environmental Services Utility Fund.

See **APPENDIX A** herein for a discussion of the City’s employee retirement and other postemployment benefits obligations.

REGISTRATION, TRANSFER AND EXCHANGE

See also **APPENDIX B** for information on registration, transfer and exchange of book-entry bonds. The Bonds will be initially issued as book-entry bonds.

The City shall cause books (the “Bond Register”) for the registration and for the transfer of the Bonds to be kept at the principal office maintained for the purpose by the Bond Registrar in Kankakee, Illinois. The City will authorize to be prepared, and the Bond Registrar shall keep custody of, multiple bond blanks executed by the City for use in the transfer and exchange of Bonds.

Any Bond may be transferred or exchanged, but only in the manner, subject to the limitations, and upon payment of the charges as set forth in the Bond Ordinance (the “Bond Ordinance”). Upon surrender for transfer or exchange of any Bond at the principal office maintained for the purpose by the Bond Registrar, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Bond Registrar and duly executed by the registered owner or such owner’s attorney duly authorized in writing, the City shall execute and the Bond Registrar shall authenticate, date and deliver in the name of the registered owner, transferee or transferees (as the case may be) a new fully registered Bond or Bonds of the same maturity and interest rate of authorized denominations, for a like aggregate principal amount.

The execution by the City of any fully registered Bond shall constitute full and due authorization of such Bond, and the Bond Registrar shall thereby be authorized to authenticate, date and deliver such Bond, provided, however, the principal amount of outstanding Bonds of each maturity authenticated by the Bond Registrar shall not exceed the authorized principal amount of Bonds for such maturity less Bonds previously paid.

The Bond Registrar shall not be required to transfer or exchange any Bond following the close of business on the 15th day of the month next preceding any interest payment date on such Bond (known as the record date), nor to transfer or exchange any Bond after notice calling such Bond for redemption has been mailed, nor during a period of fifteen days next preceding mailing of a notice of redemption of any Bonds.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of or interest on any Bonds shall be made only to or upon the order of the registered owner thereof or such owner’s legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

No service charge shall be made for any transfer or exchange of Bonds, but the City or the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a bond surrendered for redemption.

TAX TREATMENT – THE 2013A BONDS

Taxable Bonds

Interest on the 2013A Bonds is includible in gross income for federal income purposes. Ownership of the 2013A Bonds may result in other federal income tax consequences to certain taxpayers. 2013A Bondholders should consult their tax advisors with respect to the inclusion of interest on the 2013A Bonds in gross income for federal income tax purposes and any collateral tax consequences. Ownership of the 2013A Bonds may result in other state and local tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such consequences arising with respect to the 2013A Bonds.

Original Issue Discount

Certain maturities of the 2013A Bonds may be sold with original issue discount. Generally, original issue discount is taxed as it accrues. 2013A Bondholders should consult their tax advisors concerning the computation of original issue discount accruing in each tax year.

TAX EXEMPTION – THE 2013B BONDS

Federal tax law contains a number of requirements and restrictions which apply to the 2013B Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the 2013B Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the 2013B Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the 2013B Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the 2013B Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but Bond Counsel expresses no opinion as to whether interest on the 2013B Bonds is taken into account in computing adjusted current earnings, which is used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the City with respect to certain material facts within the City's knowledge and upon the mathematical computation of the yields on the Bonds and the yield on certain investments by Dunbar Breitweiser & Company, LLP, Bloomingdale, Illinois, Independent Certified Public Accountants. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the 2013B Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the alternative minimum tax, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2013B Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the 2013B Bonds is the price at which a substantial amount of such maturity of the 2013B Bonds is first sold to the public. The Issue Price of a maturity of the 2013B Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

If the Issue Price of a maturity of the 2013B Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the 2013B Bonds (the “OID Bonds”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the City complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but owners of OID Bonds should consult their own tax advisors as to whether such original issue discount is taken into account in computing adjusted current earnings, which is used in determining the federal alternative minimum tax for certain corporations; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of 2013B Bonds who dispose of 2013B Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase 2013B Bonds in the initial public offering, but at a price different from the Issue Price or purchase 2013B Bonds subsequent to the initial public offering should consult their own tax advisors.

If a 2013B Bond is purchased at any time for a price that is less than the 2013B Bond’s stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the “Revised Issue Price”), the purchaser will be treated as having purchased a 2013B Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a 2013B Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such 2013B Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the 2013B Bonds.

An investor may purchase a 2013B Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the 2013B Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the 2013B Bond. Investors who purchase a 2013B Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the 2013B Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the 2013B Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2013B Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the 2013B Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the 2013B Bonds. If an audit is commenced, under current procedures the Service may treat the City as the taxpayer and the 2013B Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the 2013B Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the 2013B Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any 2013B Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2013B Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Ownership of the 2013B Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the 2013B Bonds. Prospective purchasers of the 2013B Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

QUALIFIED TAX-EXEMPT OBLIGATIONS – THE 2013B BONDS

Subject to the City’s compliance with certain covenants, in the opinion of Bond Counsel, the 2013B Bonds are “qualified tax-exempt obligations” under the small issuer exception provided under Section 265(b)(3) of the Code, which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under Section 265(b)(2) of the Code.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the “Undertaking”) for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (the “MSRB”) pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the “Rule”) adopted by the Securities and Exchange Commission (the “Commission”) under the Securities Exchange Act of 1934. No person, other than the City, has undertaken, or is otherwise expected, to provide continuing disclosure with respect to the Bonds. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under **“THE UNDERTAKING.”**

The City has represented that it has not failed to comply in all material respects with each and every undertaking previously entered into by it pursuant to the Rule, except a certain material event disclosure pertaining to bond insurance rating changes required in prior undertakings, within the timeframe required in the prior undertakings. On September 14, 2012, this material event disclosure was filed with the MSRB, through EMMA. A failure by the City to comply with the Undertaking will not constitute a default under the Ordinance and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See **“THE UNDERTAKING - Consequences of Failure of the City to Provide Information.”** The City must report any failure to comply with the Undertaking in accordance with the Rule. Any broker, dealer or municipal securities dealer must consider such report before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Bond Counsel expresses no opinion as to whether the Undertaking complies with the requirements of Section (b)(5) of the Rule.

THE UNDERTAKING

The following is a brief summary of certain provisions of the Undertaking of the City and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the City.

Annual Financial Information Disclosure

The City covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements, if any (as described below) to the MSRB in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information within 210 days after the last day of the City’s fiscal year (currently on April 30, 2012). If Audited Financial Statements are not available when the Annual Financial Information is filed, the City will file unaudited financial statements. The City will submit Audited Financial Statements to EMMA within 30 days after availability to the City.

“Annual Financial Information” means:

1. The table under the heading of **“SEWER SYSTEM FINANCIAL INFORMATION”**.

“Audited Financial Statements” means financial statements of the City as audited annually by independent certified public accountants. Audited Financial Statements are expected to continue to be prepared according to Generally Accepted Accounting Principles as applicable to governmental units (i.e., as subject to the pronouncements of the Governmental Accounting Standards Board and subject to any express requirements of State law).

Reportable Events Disclosure

The City covenants that it will disseminate in a timely manner to the MSRB the disclosure of the occurrence of a Reportable Event (as described below) with respect to the Bonds in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information. The “Reportable Events” are:

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the City *
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Consequences of Failure of the City to Provide Information

The City shall give notice in a timely manner to the MSRB of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the City to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Ordinance, and the sole remedy under the Undertaking in the event of any failure of the City to comply with the Undertaking shall be an action to compel performance.

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the City by resolution or ordinance authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

- (a) (i) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, including, without limitation, pursuant to a “no-action” letter issued by the Commission, a change in law, or a change in the identity, nature, or status of the City, or type of business conducted; or
- (ii) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (b) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by parties unaffiliated with the City (such as Bond Counsel).

In the event that the Commission or the MSRB or other regulatory authority approves or requires Annual Financial Information or notices of a Reportable Event to be filed with a central post office, governmental agency or similar entity other than the MSRB or in lieu of the MSRB, the City shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending the Undertaking.

Termination of Undertaking

The Undertaking shall be terminated if the City shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Ordinance. The City shall give notice to the MSRB in a timely manner if this paragraph is applicable.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a Reportable Event, in addition to that which is required by the Undertaking. If the City chooses to include any information from any document or notice of occurrence of a Reportable Event in addition to that which is specifically required by the Undertaking, the City shall have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Reportable Event.

Dissemination of Information; Dissemination Agent

When filings are required to be made with the MSRB in accordance with the Undertaking, such filings are required to be made through its EMMA system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

LITIGATION

There is no litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof.

The City has a number of contracts with retailers whereby it shares a substantial portion of the local sales taxes generated by those retailers. Legal action has been filed by the City of Chicago and the Regional Transportation Authority contesting these agreements and whether either of the plaintiffs have any right to the sales tax proceeds. The City of Kankakee is in the process of strongly defending the lawsuits and can show that there has been almost no shifting of the sales tax from the jurisdiction of the plaintiffs. The City believes that the contracts it established have not shifted the point of sale from other Illinois locations, and that its agreements are legally valid.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, as Bond Counsel (the “Bond Counsel”), who has been retained by, and acts as, Bond Counsel to the City. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Final Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Final Official Statement, except that in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of the City, reviewed only those portions of this Final Official Statement involving the description of the Bonds, the security for the Bonds (excluding forecasts, projections, estimates or any other financial or economic information in connection therewith), the description of the federal tax exemption of interest on the 2013B Bonds and the “bank-qualified” status of the 2013B Bonds. This review was undertaken solely at the request and for the benefit of the City and did not include any obligation to establish or confirm factual matters set forth herein.

FINAL OFFICIAL STATEMENT AUTHORIZATION

This Final Official Statement has been authorized for distribution to prospective purchasers of the Bonds. All statements, information, and statistics herein are believed to be correct but are not guaranteed by the consultants or by the City, and all expressions of opinion, whether or not so stated, are intended only as such.

INVESTMENT RATING

The City’s rating is “A/Stable” from Standard & Poor’s Corporation. The City has supplied certain information and material concerning the Bonds and the City to the rating service shown on the cover page, including certain information and materials which may not have been included in this Final Official Statement, as part of its application for an investment rating on the Bonds. A rating reflects only the views of the rating agency assigning such rating and an explanation of the significance of such rating may be obtained from such rating agency. Generally, such rating service bases its rating on such information and material, and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by such rating service if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the secondary market price of the Bonds. An explanation of the significance of the investment rating may be obtained from the rating agency: Standard & Poor’s Corporation, 55 Water Street, New York, New York 10041, telephone 212-438-2000. The City will provide appropriate periodic credit information to the rating service to maintain a rating on the Bonds.

DEFEASANCE

The Bonds are subject to legal defeasance by the irrevocable deposit of full faith and credit obligations of the United States of America, obligations the timely payment of which are guaranteed by the United States Treasury, or certificates of participation in a trust comprised solely of full faith and credit obligations of the United States of America (collectively, the “Government Obligations”) with a bank or trust company acting as escrow agent. Any such deposit must be of sufficient amount that the receipts from the Government Obligations plus any cash on deposit will be sufficient to pay debt service on the Bonds when due or as called for redemption.

UNDERWRITING

The 2013A Bonds

PNC Capital Markets LLC, Chicago, Illinois (the “2013A Underwriter”) has agreed to purchase all but not less than all of the 2013A Bonds at a price of \$2,150,871.44 (reflecting the par amount of \$2,170,000 less an underwriter’s discount of \$19,128.56). It is anticipated that delivery of the 2013A Bonds will occur on the date shown on the cover page hereof. The 2013A Bonds may be offered and sold to certain dealers (including the 2013A Underwriter or other dealers depositing 2013A Bonds into investment trusts) at prices or yields other than such public offering prices or yields shown in this Final Official Statement, and such public offering prices or yields may be changed, from time to time, by the 2013A Underwriter.

The 2013B Bonds

PNC Capital Markets LLC, Chicago, Illinois (the “2013B Underwriter”) has agreed to purchase all but not less than all of the 2013B Bonds at a price of \$3,464,079.24 (reflecting the par amount of \$3,550,000 less the Original Issue Discount of \$54,627.50 and less an underwriter’s discount of \$31,293.26). It is anticipated that delivery of the 2013B Bonds will occur on the date shown on the cover page hereof. The 2013B Bonds may be offered and sold to certain dealers (including the 2013B Underwriter or other dealers depositing 2013B Bonds into investment trusts) at prices or yields other than such public offering prices or yields shown in this Final Official Statement, and such public offering prices or yields may be changed, from time to time, by the 2013B Underwriter.

FINANCIAL ADVISOR

The City has engaged Speer Financial, Inc. as financial advisor (the “Financial Advisor”) in connection with the issuance and sale of the Bonds. The Financial Advisor is a Registered Municipal Advisor in accordance with the rules of the Municipal Securities Rulemaking Board (the “MSRB”). The Financial Advisor will not participate in the underwriting of the Bonds. The financial information included in the Final Official Statement has been compiled by the Financial Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. The Financial Advisor is not obligated to undertake any independent verification of or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Final Official Statement, nor is the Financial Advisor obligated by the City’s continuing disclosure undertaking.

CERTIFICATION

We have examined this Final Official Statement dated July 18, 2013, for the \$2,170,000 Taxable Sewer Revenue Bonds, Series 2013A, and \$3,550,000 Sewer Refunding Revenue Bonds, Series 2013B, believe it to be true and correct and will provide to the purchaser of the Bonds at the time of delivery a certificate confirming to the purchaser that to the best of our knowledge and belief information in the Official Statement was at the time of acceptance of the bid for the Bonds and, including any addenda thereto, was at the time of delivery of the Bonds true and correct in all material respects and does not include any untrue statement of a material fact, nor does it omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

/s/ **NINA EPSTEIN**
Mayor
CITY OF KANKAKEE
Kankakee County, Illinois

/s/ **ANJANITA DUMAS**
City Clerk
CITY OF KANKAKEE
Kankakee County, Illinois

APPENDIX A

**CITY OF KANKAKEE
KANKAKEE COUNTY, ILLINOIS**

EXCERPTS OF FISCAL YEAR 2012 AUDITED FINANCIAL STATEMENTS

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF NET ASSETS
April 30, 2012

	Primary Government		Component Units
	Governmental Activities	Business-Type Activities		Total
Assets			
Cash and investments	\$ 8,681,821	\$ 1,092,690	\$ 9,774,511
Restricted cash and investments		2,819,318	2,819,318
Receivables, less allowance for uncollectible amounts:			
Property taxes	14,215,390		14,215,390
Utility taxes	468,701		468,701
Due from joint ventures		4,000,000	4,000,000
Due from other governmental agencies	6,001,707	30,369	6,032,076
Internal balances	70,335	(70,335)	-
Due from primary government			17,536
Due from component units	72,951		72,951
Accounts receivable	738,779	1,544,697	2,283,476
Special assessments	2,016,500		2,016,500
Materials inventory	2,859	41,541	44,400
Prepaid items	410,593	156,748	567,341
Capital assets:			
Non-depreciable	6,207,755	3,048,849	9,256,604
Depreciable (net of accumulated depreciation)	80,065,137	26,937,325	107,002,462
Unamortized bond issuance cost	1,301,883	239,820	1,541,703
Investment in joint venture		(473,288)	(473,288)
Total assets	120,254,411	39,367,734	159,622,145
Liabilities			
Accounts payable	5,097,220	538,244	5,635,464
Accrued wages payable	533,599	146,761	680,360
Interest payable	877,700		877,700
Due to primary government			72,951
Due to component units	17,536		17,536
Due to other government agencies	1,290		1,290
Unearned revenue	14,546,630		14,546,630
Deferred special assessments	2,016,500		2,016,500
Long-term liabilities:			
Due within one year	6,237,697	841,000	7,078,697
Due within more than one year	80,622,630	12,776,403	93,399,033
Total liabilities	109,950,802	14,322,408	124,273,210
Net Assets			
Invested in capital assets, net of related debt	42,729,716	21,805,457	64,535,173
Restricted for:			
Capital projects	5,009,123		5,009,123
Debt service	425,560	2,037,173	2,462,733
Economic development	886,689		886,689
Street maintenance programs	1,258,897		1,258,897
Unrestricted	(40,006,376)	1,202,696	(38,803,680)
Total net assets	\$ 10,303,609	\$23,045,326	\$ 33,348,935

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**CITY OF KANKAKEE, ILLINOIS
STATEMENT OF ACTIVITIES
For the year ended April 30, 2012**

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions and Capital Grants and Contributions
Primary government:			
Governmental Activities			
General government	\$ 8,160,955	\$ 1,298,678	\$ 53,615
Public safety	16,995,388	539,082	47,032
Highways and streets	3,056,562	100,000	
Community development	2,241,302		
Culture and recreation	227,382		
Economic development	12,675,039		
Interest and fiscal charges	2,788,165		
Total governmental activities	46,144,793	1,937,760	100,647
Business-Type Activities			
Sewer utility	9,566,350	9,504,962	
Solid waste utility	4,742,916	3,064,401	
Vehicle parking	30	15,083	
Total business-type activities	14,309,296	12,584,446	-0-
Total primary government	\$ 60,454,089	\$ 14,522,206	\$ 100,647
Component units:			
Library	\$ 1,817,234	\$ 100,611	\$ 16,740
Special Service Area No. 1	163,002		
Total component units	\$ 1,980,236	\$ 100,611	\$ 16,740

General Revenues:	
Property taxes levied for general purposes	13,539,999
Special assessments	291,000
State income tax	2,242,843
Local use tax	423,094
State replacement income tax	644,096
Illinois sales tax	18,156,743
Utility taxes	3,856,223
Intergovernmental, not restricted to specific programs	50,000
Investment income	106,914
Other	880,603
Contributions from primary government	40,191,515
Total	74,054
Transfers	(139,797)
Changes in net assets	(138,047)
Net assets, May 1, 2011	10,619,917
Prior period adjustment	(178,261)
Net assets, May 1, 2011, restated	10,441,656
Net assets, April 30, 2012	10,303,609

Net (Expense) Revenue and Change in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (6,862,277)	\$ (61,388)	\$ (6,862,277)	
(15,644,040)	(1,678,515)	(15,644,040)	
(2,210,499)	15,053	(2,210,499)	
217,637	(1,724,850)	217,637	
(227,382)		(227,382)	
(12,675,039)		(12,675,039)	
(2,788,165)		(2,788,165)	
(40,189,765)	(1,724,850)	(40,189,765)	
	\$ (61,388)	\$ (61,388)	
	(1,678,515)	(1,678,515)	
	15,053	15,053	
	(1,724,850)	(1,724,850)	
(40,189,765)	(1,724,850)	(41,914,615)	
			\$ (1,699,883)
			(163,002)
			(1,862,885)
			1,810,999
13,539,999		13,539,999	
291,000		291,000	
2,242,843		2,242,843	
423,094		423,094	
644,096		644,096	
18,156,743		18,156,743	
3,856,223		3,856,223	
50,000		50,000	
106,914	364	107,278	3,163
880,603	73,690	954,293	88,260
			212,382
40,191,515	74,054	40,265,569	2,114,804
(139,797)	139,797	-0-	-0-
(138,047)	(1,510,999)	(1,649,046)	251,919
10,619,917	26,556,325	37,176,242	5,130,836
(178,261)		(178,261)	
10,441,656	26,556,325	36,997,981	5,130,836
10,303,609	25,045,326	35,348,935	5,382,755

**CITY OF KANKAKEE, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS
April 30, 2012**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 455,481	\$ 4,913,352	\$ 3,312,988	\$ 8,681,821
Receivables, less allowance for uncollectible amounts:				
Property taxes	6,288,543		7,926,847	14,215,390
Utility taxes	468,701			468,701
Due from other governmental agencies	5,508,486		493,221	6,001,707
Due from other funds	453,629	150,508	175,888	780,025
Due from component units	63,519		9,432	72,951
Accounts receivable	200,115		538,664	738,779
Special assessments		2,016,500		2,016,500
Materials inventory	2,859			2,859
Prepaid items	410,593			410,593
Total assets	<u>\$ 13,851,926</u>	<u>\$ 7,080,360</u>	<u>\$ 12,457,040</u>	<u>\$ 33,389,326</u>
Liabilities				
Accounts payable	\$ 4,873,665	\$ 48,909	\$ 174,646	\$ 5,097,220
Accrued wages payable	502,847		30,752	533,599
Due to other governmental agencies	1,290			1,290
Due to other funds	27,289	5,828	676,573	709,690
Due to component units			17,536	17,536
Deferred revenue	6,641,136		8,464,708	15,105,844
Deferred special assessments		2,016,500		2,016,500
Total liabilities	<u>12,046,227</u>	<u>2,071,237</u>	<u>9,364,215</u>	<u>23,481,679</u>
Fund Balance				
Nonspendable	413,452			413,452
Restricted for:				
Debt service			425,560	425,560
Street maintenance programs			1,258,897	1,258,897
Economic development			886,689	886,689
Culture and recreation			17,991	17,991
Retirement obligations			406,012	406,012
Community development			244,228	244,228
Capital projects		5,009,123		5,009,123
Unassigned (deficit)	1,392,247		(146,552)	1,245,695
Total fund balance	<u>1,805,699</u>	<u>5,009,123</u>	<u>3,092,825</u>	<u>9,907,647</u>
Total liabilities and fund balance	<u>\$ 13,851,926</u>	<u>\$ 7,080,360</u>	<u>\$ 12,457,040</u>	<u>\$ 33,389,326</u>

**CITY OF KANKAKEE, ILLINOIS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
April 30, 2012**

Amounts reported for governmental activities in the statement of net assets are different because of the following:	\$ 9,907,647
Total fund balance - governmental funds	86,272,892
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	1,301,883
Unamortized bond issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	\$ (65,538,146)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. All liabilities--both current and long-term--are reported in the statement of net assets.	(2,591,617)
Bonds payable	(13,528,565)
Installment notes	(4,840,000)
Unfunded employer pension contributions	(361,999)
Compensated absences	(86,860,327)
Net other post-employment benefit obligations	
Total long-term liabilities (See Note 10)	(877,700)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	
Interest payable	537,861
Certain long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	21,353
Loan receivable	
Franchise fee receivable	559,214
Net assets of governmental activities	<u>\$ 10,303,609</u>

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the year ended April 30, 2012

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 5,946,020		\$ 7,593,979	\$ 13,539,999
Special assessments			291,000	291,000
State income tax	2,242,843		2,242,843	2,242,843
Local use tax	401,741		401,741	401,741
State replacement income tax	644,096		644,096	644,096
Illinois sales tax	18,156,743		18,156,743	18,156,743
Utility taxes	3,856,223		3,856,223	3,856,223
Licenses, permits and fees	1,368,735		1,368,735	1,368,735
Charges for services	199,573		199,573	199,573
Fines and penalties	369,452		369,452	369,452
Intragovernmental	806,651	\$ 53,616	3,205,001	4,065,268
Interest income	1,232	3,507	102,175	106,914
Miscellaneous	882,243		359	882,602
Total revenues	34,875,552	57,123	11,192,514	46,125,189
Expenditures:				
Current:				
General government	5,288,153	812,067	664,910	6,765,130
Public safety	16,654,352	206,746	16,861,098	16,861,098
Highways and streets		1,779,846	382,596	2,162,442
Community development			2,206,635	2,206,635
Culture and recreation		212,382	15,000	227,382
Economic development	11,844,806		531,830	12,376,636
Debt service:				
Principal retirement	10,000		4,817,983	4,827,983
Interest and fiscal charges		93	2,929,156	2,929,249
Total expenditures	33,797,311	3,011,134	11,548,110	48,356,555
Excess (deficiency) of revenues over expenditures	1,078,241	(2,954,011)	(355,596)	(2,231,366)
Other financing sources (uses):				
Issuance of refunding bonds			4,680,000	4,680,000
Premium on issuance of refunding bonds			110,185	110,185
Payment to refunded debt escrow			(4,712,384)	(4,712,384)
Transfers from other funds	141,429		2,729,753	2,871,182
Transfers to other funds	(1,200,000)		(1,810,979)	(3,010,979)
Total other financing sources (uses)	(1,058,571)	-0-	996,575	(61,996)
Net change in fund balance	19,670	(2,954,011)	640,979	(2,293,362)
Fund balance, May 1, 2011	1,560,447	7,963,134	2,451,846	11,975,427
Prior period adjustment	225,582			225,582
Fund balance, May 1, 2011, restated	1,786,029	7,963,134	2,451,846	12,201,009
Fund balance, April 30, 2012	\$ 1,805,699	\$ 5,009,123	\$ 3,092,825	\$ 9,907,647

CITY OF KANKAKEE, ILLINOIS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the year ended April 30, 2012

Amounts reported for governmental activities on the statement of activities are different because of the following:		
Net change in fund balance - total governmental funds		\$ (2,293,362)
Governmental funds report capital outlays as expenditures. However, on the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. Proceeds from disposal of capital assets are reported as other financing sources in the governmental funds, but as a reduction of capital assets and recognition of gains and losses at the government-wide level.		351,105
Expenditure for capital assets		(6,296)
Loss on disposal of capital assets		(1,736,566)
Depreciation		
Repayments of principal from current financial resources is an expenditure in the governmental funds, but are a reduction of long-term liabilities on the statement of net assets.		4,535,000
Principal payments on bonds payable		292,983
Principal payments on long-term notes payable		4,712,383
Payment to refunding debt escrow from bond proceeds		
Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(140,807)
Amortized bond issue cost		232,496
Amortized bond premium		(137,023)
Amortized deferred loss		74,101
Change in accrued interest on long-term debts		(361,500)
Net change in compensated absences payable		(538,633)
Unfunded pension cost		(166,676)
Change in net other post-employment benefit obligations payable		(298,403)
Long-term loans receivable written off		
Proceeds from issuance of long-term debt obligations are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of net assets. Premiums related to these long-term debt obligations also are reported as other financing sources in the governmental funds, but they increase liabilities on the statement of net assets. Bond issuance costs are reported as expenditures by the governmental funds, but they are assets on the statement of activities.		(4,680,000)
Proceeds from refunding bonds issued		(110,185)
Premium on issuance of bonds		
Bond issue costs are expenditures in the governmental funds, but the issuance cost increases the assets on the statement of net assets.		112,317
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Franchise fee - long term receivable		21,353
Collections on long-term loans receivable are reported as revenues in the governmental funds, but reduce the assets in the statement of net assets.		(334)
Change in net assets of governmental activities		\$ (138,047)

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
April 30, 2012

	Enterprise Funds			Total
	Kankakee Environmental Services Utility	Nonmajor Motor Vehicle Parking		
Assets				
Current assets:				
Cash and investments	\$ 968,012	\$ 124,678		\$ 1,092,690
Restricted cash and investments	782,145			782,145
Receivables, less allowance for uncollectible amounts:				
Due from joint venture	4,000,000			4,000,000
Due from other funds	222,039			222,039
Due from other governments	30,369			30,369
Accounts receivable	1,544,697			1,544,697
Inventory	41,541			41,541
Prepaid items	156,748			156,748
Total current assets	<u>7,745,551</u>	<u>124,678</u>		<u>7,870,229</u>
Non-current assets:				
Restricted cash and investments	2,037,173			2,037,173
Capital assets:				
Non-depreciable	1,605,041	1,443,808		3,048,849
Depreciable (net of accumulated depreciation)	26,937,325			26,937,325
Unamortized bond issuance cost	239,820			239,820
Investment in joint venture	(473,288)			(473,288)
Total non-current assets	<u>30,346,071</u>	<u>1,443,808</u>		<u>31,789,879</u>
Total assets	<u>38,091,622</u>	<u>1,568,486</u>		<u>39,660,108</u>
Liabilities				
Current liabilities:				
Accounts payable	558,244			558,244
Accrued wages payable	146,761			146,761
Due to other funds	292,374			292,374
Accrued employee absences	391,000			391,000
Revenue bonds payable within one year	450,000			450,000
Total current liabilities	<u>1,838,379</u>	<u>-0-</u>		<u>1,838,379</u>
Non-current liabilities:				
Accrued employee absences	460,500			460,500
Net other post-employment benefit obligations	135,186			135,186
Note payable	4,000,000			4,000,000
Revenue bonds payable, less portion due within one year	8,180,717			8,180,717
Total non-current liabilities	<u>12,776,403</u>	<u>-0-</u>		<u>12,776,403</u>
Total liabilities	<u>14,614,782</u>	<u>-0-</u>		<u>14,614,782</u>
Net Assets				
Invested in capital assets, net of related debt	20,361,649	1,443,808		21,805,457
Restricted for debt service	2,037,173			2,037,173
Unrestricted	1,078,018	124,678		1,202,696
Total net assets	<u>\$ 23,476,840</u>	<u>\$ 1,568,486</u>		<u>\$ 25,045,326</u>

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the year ended April 30, 2012

	Enterprise Funds			Total
	Kankakee Environmental Services Utility	Nonmajor Motor Vehicle Parking		
Operating revenues:				
Charges for services:				
Sewer charges	\$ 9,426,813			\$ 9,426,813
Solid waste charges	2,576,934			2,576,934
Public works revenue	355,602			355,602
Fuel system maintenance revenue	18,363			18,363
Intergovernmental	116,369			116,369
Parking revenues		\$ 15,083		\$ 15,083
Miscellaneous charges	75,282			75,282
Total operating revenues	<u>12,569,363</u>	<u>15,083</u>		<u>12,584,446</u>
Operating expenses:				
Utility operations:				
Sewer utility:				
Administration	1,648,657			1,648,657
Sanitary sewers	583,588			583,588
Lab and industrial services	461,192			461,192
Technical services	618,920			618,920
Total sewer utility	<u>3,312,357</u>	<u>-0-</u>		<u>3,312,357</u>
Solid waste utility:				
Administration	158,948			158,948
Solid waste	3,069,305			3,069,305
Public works	1,293,451			1,293,451
Total solid waste utility	<u>4,521,704</u>	<u>-0-</u>		<u>4,521,704</u>
Total utility operations	<u>7,834,061</u>	<u>-0-</u>		<u>7,834,061</u>
Building maintenance	217,928			217,928
Treatment charges	4,265,071			4,265,071
Parking administration		30		30
Depreciation	1,287,837			1,287,837
Total operating expenses	<u>13,604,897</u>	<u>30</u>		<u>13,604,927</u>
Operating income (loss)	<u>(1,035,534)</u>	<u>15,053</u>		<u>(1,020,481)</u>

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended April 30, 2012

	Enterprise Funds			Total
	Kankakee Environmental Services Utility	Nonmajor Motor Vehicle Parking		
Cash flows provided (used) by operating activities:				
Receipts from customers and users	\$ 12,930,098	\$ 15,083	\$	\$ 12,945,181
Receipts from other funds	12,479			12,479
Payments to other funds	(194,313)			(194,313)
Payments to suppliers	(8,788,618)	(30)		(8,788,648)
Payments to employees	(3,145,609)			(3,145,609)
Net cash provided (used) by operating activities	814,037	15,053		829,090
Cash flows provided (used) by noncapital financing activities:				
Issuance of notes payable	4,000,000			4,000,000
Noncapital transfers to other funds	(1,060,203)			(1,060,203)
Noncapital transfers from other funds	1,200,000			1,200,000
Net cash provided (used) by noncapital financing activities	4,139,797	-0-		4,139,797
Cash flows provided (used) by capital and related financing activities:				
Purchase of property and equipment	(978,919)			(978,919)
Proceeds from disposal of capital assets	8,335			8,335
Additions to construction in progress	(634,156)			(634,156)
Repayment of revenue bonds	(440,000)			(440,000)
Interest paid on revenue bonds	(350,823)			(350,823)
Net cash provided by capital and related financing activities	(2,395,563)	-0-		(2,395,563)
Cash flows provided (used) by investing activities:				
Loan to joint venture	(4,000,000)			(4,000,000)
Interest received	327	37		364
Net cash provided (used) by investing activities:	(3,999,673)	37		(3,999,636)
Net change in cash and cash equivalents	(1,441,402)	15,090		(1,426,312)
Cash and cash equivalents, May 1, 2011	5,228,732	109,588		5,338,320
Cash and cash equivalents, April 30, 2012	\$ 3,787,330	\$ 124,678		\$ 3,912,008

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
(Continued)
For the year ended April 30, 2012

	Enterprise Funds			Total
	Kankakee Environmental Services Utility	Nonmajor Motor Vehicle Parking		
Nonoperating revenues (expenses):				
Equity interest in joint venture operating income	\$ (177,986)	\$ 37	\$	\$ (177,986)
Interest income	327			364
Gain (loss) on disposal of capital assets	(73,311)			(73,311)
Bond interest rebates	73,690			73,690
Interest and debt-related expenses	(453,072)			(453,072)
Total nonoperating revenues (expenses)	(630,332)	37		(630,315)
Income (loss) before transfers	(1,665,886)	15,090		(1,650,796)
Transfers in	1,200,000			1,200,000
Transfers out	(1,060,203)			(1,060,203)
Change in net assets	(1,526,089)	15,090		(1,510,999)
Net assets, May 1, 2011	25,002,929	1,553,396		26,556,325
Net assets, April 30, 2012	\$ 23,476,840	\$ 1,568,486		\$ 25,045,326

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
For the year ended April 30, 2012

	Enterprise Funds		
	Kankakee Environmental Services Utility	Nonmajor Motor Vehicle Parking	Total
	\$ (1,035,534)	\$ 15,053	\$ (1,020,481)
Operating income (loss)	1,287,837		1,287,837
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	59,767		59,767
Depreciation	107,369		107,369
Provision for bad debts	223,968		223,968
(Increase) decrease in operating assets:	(30,369)		(30,369)
Accounts receivable	(2,893)		(2,893)
Due from other governmental agencies	441,037		441,037
Inventory	(74,049)		(74,049)
Due from (to) other joint venture	76,442		76,442
Prepaid insurance and service fees	(5,521)		(5,521)
Increase (decrease) in operating liabilities:	(29,300)		(29,300)
Accounts payable	(42,860)		(42,860)
Health insurance payable	(35,582)		(35,582)
Accrued compensated absences	(181,834)		(181,834)
Accrued payroll	55,559		55,559
Accrued interest			
Due to other funds			
Net other post-employment benefit obligations			
	<u>\$ 814,037</u>	<u>\$ 15,053</u>	<u>\$ 829,090</u>

Net cash provided by operating activities	\$ 19,381	\$ -0-	\$ 19,381
Noncash transactions related to financing, capital and investing activities:			
Amortization of bond issuance costs	\$ 8,217	\$ -0-	\$ 8,217
Amortization of early debt retirement deferred loss			
Construction projects capitalized	\$ 212,757	\$ -0-	\$ 212,757

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CITY OF KANKAKEE, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
April 30, 2012

Assets	
Cash and short-term investments	\$ 1,832,828
Receivables, less allowance for uncollectible amounts:	
Employee contributions	35,450
Employer contributions	83,038
Interest	82,060
Investments, at fair value:	
Open-end mutual funds	7,703,052
Corporate securities	2,806,252
U.S. treasury and agency securities	7,410,004
Corporate bonds	3,095,086
State and local obligations	382,064
Prepaid items	10,284
Total assets	23,440,118
Liabilities	
Benefits and other payables	400,564
Net Assets	\$23,039,554
Net assets held in trust for pension benefits	

CITY OF KANKAKEE, ILLINOIS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
For the year ended April 30, 2012

Additions:	
Contributions:	
Employer	\$ 4,085,908
Employee	844,068
Total contributions	4,929,976
Investment income (loss):	
Net change in fair value of investments	(106,226)
Interest and dividends	612,987
	506,761
Less: investment expense	(149,143)
Net investment income	357,618
Total additions	5,287,594
Deductions:	
Benefits	4,554,171
Refunds of contributions	8,258
Administrative expenses	65,334
Total deductions	4,627,763
Change in net assets held in trust for pension benefits	659,831
Net assets held in trust for pension benefits:	
May 1, 2011	22,379,723
April 30, 2012	\$ 23,039,554

CITY OF KANKAKEE, ILLINOIS
 COMBINING STATEMENT OF NET ASSETS
 COMPONENT UNITS
 April 30, 2012

	Library Fund	Special Service Area No. 1	Totals
Assets			
Cash and investments	\$ 567,649	\$ 250,712	\$ 818,361
Receivables, less allowance for uncollectible amounts:			
Property taxes	1,691,870	127,900	1,819,770
Due from primary government	17,536	17,536	17,536
Capital assets:			
Depreciable (net of accumulated depreciation)	6,628,917	875,072	7,503,989
Total assets	8,888,436	1,271,220	10,159,656
Liabilities			
Accounts payable	30,756	9,102	39,858
Due to primary government	72,951		72,951
Unearned revenue	1,693,130	127,900	1,821,030
Long-term liabilities:			
Due within one year	114,666		114,666
Due within more than one year	2,728,396		2,728,396
Total liabilities	4,639,899	137,002	4,776,901
Net Assets			
Invested in capital assets, net of related debt	3,785,855	875,072	4,660,927
Unrestricted	462,682	259,146	721,828
Total net assets	\$ 4,248,537	\$ 1,134,218	\$ 5,382,755

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CITY OF KANKAKEE, ILLINOIS
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the year ended April 30, 2012

	Program Revenues		
	Expenses	Charges for Services	Operating Grants
Library Fund:			
Culture and recreation	\$ 1,672,104	\$ 100,611	\$ 16,740
Interest and fiscal charges	145,130		
Special Service Area No. 1:			
General government	163,002		
Total	<u>\$ 1,980,236</u>	<u>\$ 100,611</u>	<u>\$ 16,740</u>

General Revenues:

Property taxes levied for general purposes	1,810,999
Interest	3,163
Other	88,260
Contributions from primary government	212,382
Total	<u>1,974,221</u>
Changes in net assets	274,338
Net assets, May 1, 2011	3,974,199
Net assets, April 30, 2012	<u>\$ 4,248,537</u>

	Net (Expense) Revenue and Change in Net Assets		
	Library Fund	Special Service Area No. 1	Total
Library Fund:			
Culture and recreation	\$ (1,554,753)		\$ (1,554,753)
Interest and fiscal charges	(145,130)		(145,130)
Special Service Area No. 1:			
General government		\$ (163,002)	(163,002)
Total	<u>(1,699,883)</u>	<u>(163,002)</u>	<u>(1,862,885)</u>
General Revenues:			
Property taxes levied for general purposes	1,682,741	128,258	1,810,999
Interest	2,763	400	3,163
Other	76,335	11,925	88,260
Contributions from primary government	212,382		212,382
Total	<u>1,974,221</u>	<u>140,583</u>	<u>2,114,804</u>
Changes in net assets	274,338	(22,419)	251,919
Net assets, May 1, 2011	3,974,199	1,156,637	5,130,836
Net assets, April 30, 2012	<u>\$ 4,248,537</u>	<u>\$ 1,134,218</u>	<u>\$ 5,382,755</u>

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Kankakee, Illinois (City), is a home rule unit under the 1970 Constitution of Illinois, Article VII. The City was incorporated in 1865 and operates under an elected Mayor/Council form of government. The City Council is comprised of the Mayor and fourteen council members. The City's major operations include public safety (police, fire, code enforcement and animal control), public works, highways and streets, community development, culture and recreation, economic development, sewer and solid waste utility, and general administrative services. The following significant accounting policies apply to the City and its component units.

A. Reporting Entity

The City follows accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB). The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1. Appointment of a voting majority of the component unit's board, and either (a) the ability to impose its will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
2. Fiscal dependency on the primary government.

The accompanying financial statements present the City of Kankakee, Illinois (the primary government) and its component units. The financial data of the component units is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Unit - A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. For financial reporting purposes, the following component units are reported as if they were part of the City's operations.

1. **Kankakee Environmental Services Utility (Utility)** - The Utility is governed by a board which is comprised mainly of City Council members. As stated in the Utility bylaws, one City Council member from each ward is required to serve on the Utility Board. The Utility accounts for the operation of the sewer and solid waste systems, including the public works services which benefit the citizens of the City.
2. **Community Development Agency** - The Community Development Agency is governed by the City Council. Its major sources of revenue are intergovernmental grants that are used to benefit the citizens of the City.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Discretely Presented Component Unit - A discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or whose relationship with the City is such that exclusion would cause the City's basic financial statements to be misleading or incomplete. The following discretely presented component units are reported in a separate column to emphasize that they are legally separate from the City.

1. **Kankakee Public Library (Library)** - The Library is governed by a board appointed by the City Council. The majority of the Library's revenues are from a property tax levy approved by the Council. The City has also assumed the obligation to finance the Library's deficits.
2. **Special Service Area No. 1 (SSA No. 1)** - SSA No. 1 promotes and develops downtown Kankakee. Its major source of revenues is from a property tax levy approved by the City Council.

Separately audited financial statements for the component units are not available. Combining financial statements for the discretely presented component units are presented after the basic financial statements and prior to the notes to the financial statements.

B. Basis of Presentation

Government-wide Financial Statements - The government-wide statement of net assets and statement of activities report the overall financial activities of the City and its component units, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Additionally, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect expenses for centralized functions are included in the direct expenses. Program revenues include 1) fines, fees, and charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

The City reports the following major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for the resources used for capital acquisition and other major capital improvement projects including streets, sidewalks and community development projects.

The City reports the following major proprietary funds:

Kankakee Environmental Services Utility - This fund accounts for the provision of sewer services to the residents of the City and operation of the City's waste collection and disposal services. All activities necessary to provide such services are accounted for in this fund, including administration, operations, financing, public works, billing and collection. Activities are funded with user fees.

Additionally, the City reports the following fiduciary fund type:

Pension Trust Funds - These funds account for the accumulation of retirement and disability benefits for police and firefighters' pension plans.

C. Measurement Focus and Basis of Accounting:

Government-wide, Proprietary and Fiduciary Fund Financial Statements - The government-wide, proprietary, and fiduciary fund 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, regardless of the timing of related cash flows. Nonexchange transactions, in which the City receives value without directly giving equal value in exchange, include property tax revenue, grants, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance, which is the year after the taxes are levied. For example, the 2010 levy is recognized as revenue for the year ended April 30, 2012.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenues from grants and other contributions are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from exchange transactions associated with a proprietary fund's principal ongoing activities. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenues of the City's enterprise funds come from charges to customers for sales and services which include sewer and solid waste charges, utility fees and parking fees. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Governmental Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues, except for property taxes and income tax, to be available if they are collected within 90 days of the end of the current fiscal period. Revenues for property taxes are considered to be available if they are collected within 60 days of the end of the current fiscal year for the year intended to finance. Revenues for the income tax are considered to be available if they are collected within 120 to 150 days of the end of the current fiscal year due to further delay in receipt from the State. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt and claims and judgments are recorded only when payment is due. Compensated absences are recorded only when retirement or separation has occurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing source

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property taxes, sales taxes, income taxes, utility taxes, intergovernmental revenues, franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility) and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The City reports deferred/uneared revenue on its financial statements. Deferred/uneared revenues arise when a potential revenue does not meet both the measurable and available or earned criteria for recognition in the current period. Deferred/uneared revenues also arise when the resources are received by the City before it has a legal claim to them or prior to the provision of services. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the financial statements and revenue is recognized.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

D. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The value of open-end mutual funds are determined by the pool's share price. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. All external investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

E. Interfund Transactions

Activities 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" for the current portion of interfund loans or "advances to/from other funds" for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." Interfund balances between governmental funds and between proprietary funds are not included in the government-wide statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not expendable available financial resources.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City has the following types of interfund transactions:

Loans - Amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds in the fund balance sheets or fund statements of net assets.

Services Provided and Used - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

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

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

F. Inventory and Prepaid Items

Inventory, such as fuel and office supplies, is accounted for using the consumption method and is valued at an average weighted cost.

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

G. Restricted Assets - Enterprise Funds

Certain cash and investments in the Kankakee Environmental Services Utility 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 assets.

H. Long-Term Debt, Bond Premiums, Discounts and Issuance Costs

In the government-wide and proprietary fund financial statements, outstanding debts are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The amount of bond issue costs amortized during the year ended April 30, 2012, for the governmental and business-type activities was \$140,807 and \$19,381, respectively. The unamortized bond issuance cost at April 30, 2012 for the governmental and business-type activities was \$1,301,883 and \$239,820, respectively.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

J. Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus any material unspent bond proceeds.

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's practice to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

K. Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned.

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

L. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments, including cash in excess of daily requirements that is invested in marketable securities, substantially all of which have a maturity of three months or less when acquired.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, bridges, drainage systems, traffic controls, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Minimum capitalization costs are as follows:

Land	\$ 25,000
Machinery, equipment and vehicles	5,000
Buildings, land improvements, leasehold improvements	100,000
Infrastructure assets	250,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, whereas improvements extending the useful lives of the related capital assets are capitalized.

Capital assets of the City and its component units are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings, major plant and sewerage equipment	20 - 75
Machinery, equipment and vehicles	5 - 20
Improvements	7 - 40
Infrastructure	25 - 100

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

N. Fund Equity - Fund Financial Statements

The City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended April 30, 2012. Fund balance is now classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance is reported for amounts that are either not in a spendable form or legally or contractually required to be maintained intact. Restrictions in fund balance are reported for amounts constrained by legal restrictions from outside entities. Committed fund balance is constrained by formal actions of the City Council, which is considered the City's highest level of decision making authority. Formal actions include resolutions and ordinances approved by the Council. Assigned fund balance represents amounts constrained by the City's intent to use them for a specific purpose. Any residual fund balance of the General Fund and any deficits in other funds, if any, are reported as unassigned.

The City's flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted funds are available for spending, the restricted funds are spent first. Additionally, if different levels of unrestricted funds are available for spending, the City considers committed funds to be expended first, followed by assigned and then unassigned.

O. Investment in Joint Venture

The Kankakee Environmental Services Utility has two investments in joint ventures which are reported on the equity method of accounting.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investing is performed in accordance with investment policies complying with state statutes (as outlined in the Illinois Public Funds Act of 1943) and City charter. These statutes and the City charter authorize the City to invest in direct and general obligations of the United States of America, obligations issued or guaranteed by instrumentalities or agencies of the United States of America, direct and general obligations of any state, interest-bearing demand or time deposits or interest in money market portfolios issued by state banks or trust companies or national banking associations or savings and loan associations that are continuously and fully insured, shares of a diversified open-end management investment company, state pooled investment funds, or repurchase agreements of government securities through banks or trust companies. Police and Fire pension investments are governed by the Illinois Pension Code which authorize, in addition to the above investments, investments in common stock, mutual funds and life insurance company contracts. The City's Police and Firefighters' Pension funds, under the direction of their respective Boards of Trustees, contractually delegate investment oversight to investment managers.

The City maintains a cash and investment pool that is available for use by the General Fund, Capital Projects Fund, and all special revenue funds (except the Motor Fuel Tax Fund, the Community Development Agency, and the Senior Aides Program). In addition, non-pooled cash and investments are separately held by several of the City's funds including component units. The deposits and investments of the pension trust funds are held separately from those of the other City funds.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued):

Deposits:

The City, component units and pension trust funds' investment policies require all uninsured deposits with financial institutions to be fully collateralized with the collateral held by an independent third party acting as the City's agent and held in the name of the City, component units and pension trust funds, respectively.

At April 30, 2012, the carrying amount of the City's deposits for governmental and business-type activities was \$5,527,255 and the bank balance was \$5,549,758. The entire bank balance was covered through federal depository insurance or by collateral held by the City or its agent, in the City's name.

At April 30, 2012, the carrying amount of deposits of fiduciary activities was \$1,110,073 and the bank balance was \$1,110,075 of which \$244,968 was uninsured and uncollateralized. This portion of the bank balance that is uninsured and uncollateralized is a violation of the City's investment policy.

At April 30, 2012, the carrying amount of deposits of the City's component units was \$818,361 and the bank balance was \$819,340 of which \$319,340 was uninsured and uncollateralized. This portion of the bank balance that is uninsured and uncollateralized is a violation of the City's investment policy.

Investments:

The following table presents the investments and investment maturities of the City and its component units as of April 30, 2012. Categorized investments are insured or registered for which the securities are held by the City or its agent in the City's name. Uncategorized investments are not subject to categorization because they are not securities. The relationship between the City and the investment agent is a direct contractual relationship.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Governmental and business-type activities:					
Uncategorized investments:					
Illinois Funds	\$ 1,760,774	\$ 1,760,774			
Treasury Management Investment Fund	5,164,164				
Illinois Metropolitan Investment Fund (IMET)	141,656	141,656			
	\$ 7,066,574	\$ 7,066,574	\$ -	\$ -	\$ -
Fiduciary activities:					
Categorized investments:					
U.S. Treasury obligation	\$ 4,883,200	\$ 920,871	\$ 1,843,169	\$ 1,659,297	\$ 459,863
U.S. Government agencies	2,526,804	180,402	1,445,807	245,412	655,183
State and local obligation	382,064			148,742	233,322
Uncategorized investments:					
Illinois Funds	\$ 9	\$ 9			
Corporate bonds	3,095,086		904,352	1,969,235	221,499
Mutual funds	7,703,052				
Money market	722,696				
Common stock (1)	2,806,252				
	22,119,213	9,527,080	4,193,328	4,022,686	1,569,867
Total investments	\$29,185,787	\$16,593,654	\$4,193,328	\$4,022,686	\$1,569,867

(1) Risk disclosures do not apply to equities.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued):

Credit Risk

The City's investment and cash management policy, as well as the investment policies of the Police and Firefighters' Pension Trust Funds, prescribe to the "prudent person" rule, which states "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived." The City's investment policy follows the requirements of the State of Illinois Public Funds Investment Act, which prescribes allowable investment vehicles. According to the City's investment policy governing diversification, its investment in Illinois Funds shall not exceed 40 percent of the total investment portfolio unless specifically authorized by the City Council. The City places no limit on the amount the City may invest in any other issuer. The Police and Firefighters' Pension Trust Funds each have separate investment policies, which establish criteria for allowable investments. Both funds follow the requirements of the Illinois Pension Code. The following significant investments (other than those explicitly guaranteed or issued by the U.S. government or those invested in mutual funds, external investment pools or other pooled investments) in the Police and Firefighters' Pension Plans represent 5 percent or more of the net assets available for benefits of the respective plans:

Police Pension Fund:	\$1,089,646
FNMA	
Firefighters' Pension Fund:	\$746,973
FHLMC	

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS:

Illinois Municipal Retirement Fund:

Plan Description

The City contributes to the Illinois Municipal Retirement Fund (IMRF), which provides retirement and disability benefits, post-retirement increases, and death benefits to plan members and beneficiaries. IMRF is an agent-multiple-employer public employee retirement system that acts as a common investment and administrative agent for local governments and school districts in Illinois. The IMRF covers all City employees who occupy a job normally requiring 600 hours or more per year, are paid on a regular payroll from City funds, were under age 60 when first entering employment and are not covered by another state-created retirement system for the same service. Employees not qualifying above are considered "Nonparticipating employees" and are covered under Social Security or under the police pension or firefighters' pension plans. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole, but not for individual employers. That report may be obtained on-line at www.imrf.org.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued):

The investments in the securities of U.S. government agencies were all rated AAA by Standard & Poor's, and AAA by Moody's Investors Services. The securities of U.S. government agencies at April 30, 2012 consist of the following:

Fiduciary	Amount
FHLMC	\$ 946,132
FNMA	1,447,775
GNMA	91,720
TVA	41,177
Total	\$2,526,804

In accordance with the City's investment policy, the City invests in mortgage-backed securities. These securities are reported at fair value and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagors, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The City invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

The City invests in Illinois Funds, an external investment pool administered by the State Treasurer, which is rated AA/A+ by Standard & Poor's Investment Services. The City also invests in Treasury Management Investment Fund, an external investment sweep fund designed specifically for government and municipal entities. The Fund is administered by Allegiance Asset Management Company. The Fund has an average portfolio quality rating of A1+/P1. The City also invests in Illinois Metropolitan Investment Fund, an external investment pool administered by and for Illinois public funds managers and financial officers, which is rated AAA/FS1 by Standard & Poor's Investment Services. No rating is available for the City's investment in money market and corporate bonds which are managed by an investment broker.

Interest Rate Risk

The City's investment policy limits investment maturities in the General Fund and Special Revenue Funds to a maximum of 36 months. Investments in other funds may be purchased with a longer maturity to match future project or liability requirements as limited by bond ordinances. However, in practice, the City generally limits the average duration of its investments to less than one year in order to control fair value losses arising from increasing interest rates and to remain sufficiently liquid to meet operating needs. Interest rate risk for investments held by Pension Trust Funds is managed by establishing investment parameters for the investment managers.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

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 percent of their final rate of earnings, for each year of credited service up to 15 years, and 2 percent for each year thereafter.

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after 10 years of service. Participating members who retire at age 62 (reduced benefits) or after age 67 (full benefits) with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3 percent of their final rate of earnings, for each year of credited service up to 15 years, and 2 percent for each year thereafter.

Funding Policy

As set by statute, employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2011, used by the City, was 9.44 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2011 was 12.25 percent. Employer also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost and Net Pension Obligation

For the fiscal year ending April 30, 2012, the employer's actual contributions for pension cost were \$563,101. Its required contribution for calendar year 2011 was \$712,818. The required contribution for 2011 was determined as part of the December 31, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2009, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.0 percent a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4 percent to 10.0 percent per year depending on age and services, attributable to seniority/merit, and (d) post-retirement benefit increases of 3.0 percent annually. The actuarial value of IMRF assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20.0 percent corridor between the actuarial and market value of assets. IMRF's unfunded actuarial accrued liability at December 31, 2009 is being amortized as a level percentage of projected payroll on an open 30 year basis.

Three-Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$718,005	78%	\$380,582
2011	687,085	75%	225,678
2010	519,487	89%	56,399

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

The City's APC and NPO are calculated as follows:

Annual required contribution	\$713,178
Interest on net pension obligation	16,926
Adjustment to annual required contribution	(12,099)
Annual pension cost	718,005
Contributions made	563,101
Increase in net pension obligation	154,904
Net pension obligation, beginning of year	225,678
Net pension obligation, end of year	\$380,582

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the City's IMRF plan was 75.62 percent funded. The actuarial accrued liability for benefits was \$20,485,433 and the actuarial value of assets was \$15,490,536, resulting in an underfunded actuarial accrued liability (UAAL) of \$4,994,897. The covered payroll for calendar year 2011 (annual payroll of active employees covered by the plan) was \$5,818,925 and the ratio of the UAAL to the covered payroll was 86 percent.

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

Police Pension and Firefighters' Pension Funds:

A. Plan descriptions

The City contributes to two single-employer defined benefit pension plans: The Police Pension Plan and the Firefighters' Pension Plan (Plans). Each plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Sworn Police and Fire personnel are covered by the Plans. Although these are single-employer pension plans, the defined benefits and employee and employer contribution levels are governed by Illinois Compulsory Statutes (ILCS) and may be amended only by the Illinois legislature. The City accounts for the Plans as Pension Trust Funds. The City does not, however, separately issue audited financial reports for the Plans.

Police Pension Plan

Covered employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of 2.5 percent of final salary for each year of service up to 30 years, to a maximum of 75 percent of such salary.

Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit of 2.5 percent of final salary for each year of service.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

Surviving spouses receive 100 percent of final salary for fatalities resulting from an act of duty, or otherwise the greater of 50 percent of final salary or the employee's retirement benefit.

Employees disabled in the line of duty receive 65 percent of final salary.

The monthly pension of a covered employee who retired with 20 or more years of service after January 1, 1977, shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years by 3 percent of the originally granted pension. Beginning with increases granted on or after July 1, 1993, the second and subsequent automatic annual increases shall be calculated as 3 percent of the amount of the pension payable at the time of the increase.

Employees are required by ILCS to contribute 9.91 percent of their base salary to the Police Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest.

For employees hired after January 1, 2011, the normal retirement age is attainment of age 55 and completion of 10 years of service. Early retirement age is attainment of age 50, completion of 10 years of service and the early retirement factor is 6 percent per year. The employee's accrued benefit is based on the employee's final eight year average salary not to exceed \$106,800 (as indexed). Cost of living adjustments are simple increases, not compounded, of the lesser of three percent or 50 percent of the Consumer Price Index beginning the later of the anniversary and age 60. Surviving spouse's benefits are 66.67 percent of the employee's benefit at the time of death.

Firefighters' Pension Plan

Covered employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension shall be increased by one-twelfth of 2.5 percent of such monthly salary for each additional month of service over 20 years up to 30 years, to a maximum of 75 percent of such monthly salary.

Employees with at least 10 years, but less than 20 years of credited service, may retire at or after age 60 and receive a reduced retirement benefit ranging from 15 percent of final salary for 10 years of service to 45.6 percent for 19 years of service.

Surviving spouses receive 100 percent of final salary for fatalities resulting from an act of duty, or otherwise the greater of 54 percent of final salary or the monthly retirement pension that the deceased firefighter was receiving at the time of death. Surviving children receive 12 percent of final salary. The maximum family survivor benefit is 75 percent of final salary.

Employees disabled in the line of duty receive 65 percent of final salary.

The monthly pension of a covered employee who retired with 20 or more years of service after January 1, 1977, shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55, by 3 percent of the amount of the pension payable at the time of the increase.

Covered employees are required by ILCS to contribute 9.455 percent of their base salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

For employees hired after January 1, 2011, the annual retirement benefit is 2.5 percent of final average salary for each year of service up to 30 years, to a maximum of 75 percent of such salary, the normal retirement age is attainment of age 55 and completion of 10 years of service. Early retirement age is attainment of age 50, completion of 10 years of service and early retirement factor of 6 percent per year. The employee's accrued benefit is based on the employee's final eight year average salary not to exceed \$106,800 (as indexed). Cost of living adjustments are simple increases, not compounded, of the lesser of 3 percent or 50 percent of Consumer Price Index beginning the later of the anniversary date and age 60. Surviving spouse's benefits are 66.67 percent of the employee's benefits at the time of death.

Membership of the Plans is as follows:

	Police Pension	Firefighters' Pension
Retirees and beneficiaries receiving benefits	55	70
Terminated plan members entitled to but not yet receiving benefits	1	2
Active vested plan members	53	21
Active nonvested plan members	16	35
Total	125	128

B. Summary of Significant Accounting Policies and Plan Asset Matters

The financial statements of the Plans are prepared using the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments without an established market are reported at estimated fair value. Administrative costs are financed through investment earnings.

C. Significant Investments

There are no significant investments (other than those guaranteed or issued by the U.S. government) in any one organization that represent 5 percent or more of the net assets available for benefits except for the following investments:

Police Pension Fund:	\$ 973,923
Standard & Poor's 500 Fund	890,532
Calamos Growth and Income Fund	1,864,455

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

Firefighters' Pension Fund:	
Calamos Growth and Income Fund	\$518,397
Standard & Poor's 500 Fund	699,350
Ivy Asset Strategy Fund	525,178
Pimco All Asset All Authority Fund	536,551
Gabelli Value Fund	530,558
	<u>\$2,810,034</u>

D. Funding Policy and Actuarial Assumptions

The City funds its contribution to the Plans through an annual tax levy. The levy amount is actuarially determined as the annual contribution necessary to fund the normal cost, plus the amount to amortize the unfunded accrued liability. Actuarial valuations are performed annually. There are no material current year changes to the actuarial assumptions and benefit provisions. Employer contributions have been determined as follows:

	Police Pension	Firefighters' Pension
Actuarial valuation date	April 30, 2011	April 30, 2011
Employer contribution rate	41.94% of covered payroll	55.59% of covered payroll
Actuarial cost method	Entry-age normal	Entry-age normal
Asset valuation method	Market	Market
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	30 years	30 years
Significant actuarial assumptions:		
(a) Investment rate of return*	7.0% compounded annually	7.0% compounded annually
(b) Projected salary increases*	5% compounded annually	5% compounded annually
(c) Cost of living adjustments	3% per year	3% per year
* Includes inflation at	3%	3%

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

E. Annual Pension Cost and Net Pension Obligation

Employer annual pension costs (APC), percentage of APC contributed and the net pension obligation (NPO) are as follows. The NPO is the cumulative difference between the Annual Required Contribution (ARC) and the contributions actually made.

	Year Ending April 30,	Police Pension	Firefighters' Pension
Annual pension costs (APC):			
2012	2012	\$2,073,464	\$2,269,936
2011	2011	1,897,883	2,197,686
2010	2010	1,534,697	1,696,706
Percentage of APC contributed:			
2012	2012	95.0%	90.1%
2011	2011	74.7%	69.1%
2010	2010	92.4%	82.6%
NPO:			
2012	2012	\$5,310,998	\$7,836,985
2011	2011	5,206,423	7,613,181
2010	2010	4,726,086	6,933,707

The City's APC and NPO are calculated as follows:

	Police Pension	Firefighters' Pension
Annual required contribution	\$1,968,889	\$2,117,020
Interest on net pension obligation	416,514	609,054
Adjustment to annual required contribution	(311,939)	(456,138)
Annual pension cost	2,073,464	2,269,936
Contributions made	1,968,889	2,046,132
Increase in net pension obligation	104,575	223,804
Net pension obligation, beginning of year	5,206,423	7,613,181
Net pension obligation, end of year	\$5,310,998	\$7,836,985

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

F. Pension Financial Statements

The following is a combining statement of plan net assets as of April 30, 2012:

	Police Pension Fund	Firefighters' Pension Fund	Totals
Assets:			
Cash and short-term investments	\$ 993,450	\$ 839,378	\$ 1,832,828
Receivables, less allowance for uncollectible amounts:			
Employee contributions	20,928	14,522	35,450
Employer contributions	83,038	83,038	166,076
Interest	40,738	41,322	82,060
Investments, at fair value:			
Open-end mutual funds	3,821,550	3,881,502	7,703,052
Corporate securities	2,806,252	2,806,252	5,612,504
U.S. treasury and agency securities	4,470,848	2,939,156	7,410,004
Corporate bonds	1,944,811	1,150,275	3,095,086
State and local obligations	254,651	127,413	382,064
Prepaid items	10,284	10,284	20,568
Total assets	<u>14,353,228</u>	<u>9,086,890</u>	<u>23,440,118</u>
Liabilities:			
Benefits and other payables	187,811	212,753	400,564
Net assets held in trust for pension benefits	<u>\$14,165,417</u>	<u>\$8,874,137</u>	<u>\$23,039,554</u>

The following is a combining statement of changes in plan net assets for the year ended April 30, 2012:

	Police Pension Fund	Firefighters' Pension Fund	Totals
Additions:			
Contributions:			
Employer	\$1,968,888	\$2,117,020	\$4,085,908
Employee	498,481	345,587	844,068
Total contributions	<u>2,467,369</u>	<u>2,462,607</u>	<u>4,929,976</u>
Investment income (loss):			
Net change in fair value of investments	45,452	(151,678)	(106,226)
Interest and dividends	<u>314,580</u>	<u>298,407</u>	<u>612,987</u>
	360,032	146,729	506,761

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 3 - EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued):

	Police Pension Fund	Firefighters' Pension Fund	Totals
Less: investment expenses	\$ (90,437)	\$ (58,706)	\$ (149,143)
Net investment income	269,595	88,023	357,618
Total additions	<u>2,736,964</u>	<u>2,550,630</u>	<u>5,287,594</u>
Deductions:			
Benefits	2,096,217	2,457,954	4,554,171
Refunds of contributions	8,258	8,258	16,516
Administrative expenses	<u>26,360</u>	<u>38,974</u>	<u>65,334</u>
Total deductions	<u>2,130,835</u>	<u>2,496,928</u>	<u>4,627,763</u>
Net increase	606,129	53,702	659,831
Net assets held in trust for pension benefits:			
May 1, 2011	13,559,288	8,820,435	22,379,723
April 30, 2012	<u>\$14,165,417</u>	<u>\$8,874,137</u>	<u>\$23,039,554</u>

G. Funded Status and Funding Progress

The funded status of the Plans based on actuarial valuations performed as of April 30, 2011, is as follows. The actuarial assumptions used to determine the funded status of the plans are the same actuarial assumptions used to determine the employer annual pension contribution of the plans as disclosed above in Note 3 D.

	Police Pension	Firefighters' Pension
Actuarial accrued liability (AAL)	\$47,690,763	\$41,794,307
Actuarial value of plan assets	15,528,178	8,820,435
Unfunded actuarial accrued liability (UAAL)	32,162,585	32,973,872
Funded ratios (actuarial value of plan assets / AAL)	32.6%	21.1%
Covered payroll (active plan members)	4,694,622	3,680,655
UAAL as a percentage of covered payroll	685.1%	895.9%

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

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 4 – OTHER POST-EMPLOYMENT BENEFITS (Continued):

Annual OPEB Costs and Net OPEB Obligation

The City had its last actuarial valuation performed for the plan as of April 30, 2011. The net OPEB obligation has been updated through April 30, 2012. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ending April 30,	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$367,658	\$145,422	39.6%	\$497,185
2011	205,147	112,792	55.0%	274,949
2010	203,633	112,792	55.4%	182,594

The net OPEB obligation (NOPEBO) as of April 30, 2012, was calculated as follows:

Annual required contribution	\$363,074
Interest on net OPEB obligation	13,749
Adjustment to annual required contribution	(9,165)
Annual OPEB cost Contributions made	367,658
Increase in net OPEB obligation	145,422
Net OPEB obligation, beginning of year	222,236
Net OPEB obligation, end of year	<u>274,949</u>
	\$497,185

Funded Status and Funding Progress

The Funded status of the plan as of April 30, 2012 was as follows:

Actuarial accrued liability (AAL)	\$5,835,321
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	5,835,321
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	14,194,202
UAAL as a percentage of covered payroll	41.1%

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

Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care benefits (OPEB) for retired employees through a single employer defined benefit plan. The benefits, benefit levels, employee contributions and any 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, an irrevocable trust has not been established to account for the plan. The plan does not issue a separate report. The activities of the plan are reported in the City's governmental and business-type activities.

Benefits Provided

The City provides post-employment health care benefits to its retirees. To be eligible for benefits, an employee must qualify for retirement under one of the City's retirement plans or meet COBRA requirements.

All health care benefits are provided through the City's health plan. The benefit levels are the same as those afforded to active employees. Benefits include general inpatient and outpatient medical services; mental, nervous, and substance abuse care; and prescriptions. Eligibility in the City sponsored health care plan is not discontinued upon eligibility for federally sponsored health care benefits. The retirees may continue on the City's health plan as a supplement to other plans for which the retirees are eligible.

Membership

At April 30, 2012, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21
Terminated employees entitled to benefits but not yet receiving them	-0-
Active vested plan members	163
Active nonvested plan members	<u>84</u>
Total	268

Funding Policy

The City negotiates the contribution percentages between the City and employees through the union contracts and personnel policy. All retirees contribute 100% of the actuarially determined premium to the plan (except for the Kankakee Environmental Services Utility retirees who contribute 20% of premium for the first three years only), to cover the cost of providing the benefits to the current members via the insured plan (pay as you go) which results in an implicit subsidy to the City as defined by the GASB Statement No. 45. For the fiscal year ending April 30, 2012, retirees contributed \$232,730 and the City contributed \$145,422 toward the implicit subsidy. The City is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future. Active employees do not contribute to the plan until retirement.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 4 – OTHER POST-EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions

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

In the April 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.00% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate starting at 8.00% initially and 6.00% ultimately. Both rates include a 3.00% inflation assumption. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at April 30, 2011, was 30 years.

NOTE 5 - CAPITAL ASSETS:

The beginning balances of the capital assets reported in the governmental activities of the primary government were restated by \$403,843 to correct certain errors identified in the prior period. See Note 22.

A summary of changes in capital assets of the City and its component units for the year ended April 30, 2012 is as follows:

	Balance May 1, 2011 (Restated)	Additions	Deletions	Balance April 30, 2012
Primary government:				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,268,162	\$ 97,317	\$220,832	\$ 5,268,162
Construction in progress	1,063,108			939,593
Total capital assets not being depreciated	6,331,270	97,317	220,832	6,207,755
Capital assets being depreciated:				
Buildings	14,282,745			14,282,745
Equipment	670,125	69,456	39,895	699,686
Vehicles	4,383,450	184,332	210,383	4,357,399
Land improvements	3,530,538			3,530,538
Infrastructure	79,513,648	220,832	14,187	79,720,293
Total capital assets being depreciated	102,380,526	474,620	264,465	102,590,681

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued):

	Balance May 1, 2011 (Restated)	Additions	Deletions	Balance April 30, 2012
Less accumulated depreciation:				
Buildings	\$ 1,306,732	\$ 190,742		\$ 1,497,474
Equipment	405,153	102,243	\$ 36,295	471,101
Vehicles	2,437,510	287,576	210,383	2,514,703
Land improvements	1,046,914	164,568		1,211,482
Infrastructure	15,850,838	991,437	11,491	16,830,784
Total accumulated depreciation	21,047,147	1,736,566	258,169	22,525,544
Total capital assets being depreciated, net	81,333,379	(1,261,946)	6,296	80,065,137
Total capital assets, net	\$87,664,649	\$(1,164,629)	\$227,128	\$86,272,892

Depreciation expense for governmental activities for the year ended April 30, 2012 was charged to functions as follows:

General government	\$ 338,953
Public safety	371,843
Highways and streets	991,437
Community development	34,333
	<u>\$1,736,566</u>

Business-type activities:

	Balance May 1, 2011	Additions	Deletions	Balance April 30, 2012
Kankakee Environmental Services Utility:				
Capital assets not being depreciated:				
Land	\$ 642,263			\$ 642,263
Construction in progress	541,379	\$634,156	\$212,757	962,778
Total capital assets not being depreciated	1,183,642	634,156	212,757	1,605,041
Capital assets being depreciated:				
Buildings	11,933,087	32,899		11,965,986
Equipment	3,180,029	190,928	14,250	3,356,707
Vehicles	2,638,458	365,409	324,263	2,679,604
Leasehold improvements	289,696			289,696
Infrastructure	29,012,148	602,440		29,614,588
Total capital assets being depreciated	\$47,053,418	\$1,191,676	\$338,513	\$47,906,581

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued):

	Balance May 1, 2011 (Restated)	Additions	Deletions	Balance April 30, 2012
Less accumulated depreciation:				
Buildings	\$5,333,643	\$244,415		\$5,578,058
Equipment	2,304,709	208,999	14,250	2,499,458
Vehicles	1,672,951	180,514	242,617	1,610,848
Leasehold improvements	67,994	7,019		75,013
Infrastructure	10,558,989	646,890		11,205,879
Total accumulated depreciation	19,938,286	1,287,837	256,867	20,969,256
Total capital assets being depreciated, net	27,115,132	(96,161)	81,646	26,937,325
Total capital assets, net	\$28,298,774	\$ 537,995	\$294,403	\$28,542,366
Motor Vehicle Parking: Capital assets not being depreciated:				
Land	\$1,443,808	\$-0-	\$-0-	\$1,443,808
Capital assets being depreciated:				
Equipment	82,384			82,384
Vehicles	18,555			18,555
Land improvements	731,992			731,992
Total capital assets being depreciated	832,931	-0-	-0-	832,931
Total capital assets, net	\$1,443,808	\$-0-	\$-0-	\$1,443,808

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 5 - CAPITAL ASSETS (Continued):

	Balance May 1, 2011 (Restated)	Additions	Deletions	Balance April 30, 2012
Component Units:				
Library:				
Capital assets being depreciated:				
Buildings	\$7,758,883			\$7,758,883
Equipment	59,489			59,489
Leasehold improvements	156,317	\$138,353		294,670
Total capital assets being depreciated	7,974,689	138,353	\$-0-	8,113,042
Less accumulated depreciation:				
Buildings	1,249,615	97,759		1,347,374
Equipment	59,489			59,489
Leasehold improvements	62,528	14,734		77,262
Total accumulated depreciation	1,371,632	112,493	\$-0-	1,484,125
Total capital assets, net	\$6,603,057	\$ 25,860	\$-0-	\$6,628,917
Special Service Area No. 1: Capital assets being depreciated:				
Land improvements	\$1,126,132	\$ -0-	\$-0-	\$1,126,132
Less accumulated depreciation:				
Land improvements	196,142	54,918		251,060
Total capital assets, net	\$ 929,990	\$ (54,918)	\$-0-	\$ 875,072

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

Interfund balances at April 30, 2012 consisted of the following:

Primary government:	
Governmental funds:	
Due to General Fund from:	
Kankakee Environmental Services Utility	\$290,288
Nonmajor governmental funds	163,341
Total	<u>\$453,629</u>
Component units:	
Library	\$63,519
Due to Capital Projects Fund from:	
Nonmajor governmental funds	\$150,508

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES (Continued):

Due to nonmajor governmental funds from:	
Nonmajor governmental funds	\$173,802
Kankakee Environmental Services Utility	<u>2,086</u>
Total	<u>\$175,888</u>
Component Units:	
Library	<u>\$9,432</u>
Enterprise funds:	
Due to Kankakee Environmental Services Utility from:	
General Fund	\$ 27,289
Capital Projects Fund	5,828
Nonmajor governmental fund	<u>188,922</u>
Total	<u>\$222,039</u>
Component Units:	
Due to Special Service Area #1 from:	
Nonmajor governmental fund	<u>\$17,536</u>

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. All these interfund balances are expected to be repaid within one year.

NOTE 7 - ACCOUNTS RECEIVABLE:

An analysis of the collectibility of accounts receivable for sewer, garbage collection, Community Development Agency loans and other receivables was performed as of April 30, 2012. The analysis shows that the collection of approximately \$968,791 of these accounts is doubtful. An allowance for uncollectible accounts for this amount has been recorded. At April 30, 2012, the City has deferred economic development loans receivable of \$537,861 since they will not be available to pay current period expenditures. All other receivables are scheduled for collection during the fiscal year ending April 30, 2013.

Accounts receivable at April 30, 2012, are as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
Governmental activities:			
Trash collection	\$ 160,024		\$ 160,024
Franchise fees	92,384		92,384
Economic development loans		\$ 726,664	726,664
Other receivables	107,731		<u>107,731</u>
Total	360,139	726,664	1,086,803
Less: allowance for doubtful accounts	<u>(160,024)</u>	<u>(188,000)</u>	<u>(348,024)</u>
Accounts receivable, net	<u>\$ 200,115</u>	<u>\$ 538,664</u>	<u>\$ 738,779</u>

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 7 - ACCOUNTS RECEIVABLE (Continued):

	Kankakee Environmental Services Utility
Business-type activities:	
Sewer charges	\$1,704,446
Garbage collection	415,684
Other receivables	<u>45,334</u>
Total	2,165,464
Less: allowance for doubtful accounts	<u>(620,767)</u>
Accounts receivable, net	<u>\$1,544,697</u>

NOTE 8 - DUE FROM OTHER GOVERNMENTAL AGENCIES:

The following receivables are included in due from other governmental agencies:

Governmental activities:	
General Fund:	
Sales tax	\$4,431,023
Local use tax	97,867
State replacement tax	95,548
Income tax	821,359
Various grants	<u>62,689</u>
Total General Fund	5,508,486
Nonmajor governmental funds:	
CDBG Grant	238,708
Lead Grant	82,770
Home Grant	87,102
Motor fuel taxes	<u>84,641</u>
Total nonmajor governmental funds	493,221
Total governmental activities	<u>\$6,001,707</u>
Business-type activities:	
Kankakee Environmental Services Utility:	\$17,712
Illinois Department Of Transportation	12,157
Kankakee Township	<u>500</u>
Total business-type activities	<u>\$30,369</u>

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 9 - SPECIAL ASSESSMENTS:

The special assessments receivable of \$2,016,500 results from the creation of Indian Meadows Special Tax Assessment District for infrastructure costs. The special assessments are recorded when levied. Deferred assessments consist of unbilled special assessments which are liens against the property benefited. \$1,713,500 of the special assessments receivable is not expected to be collected within one year.

NOTE 10 - LONG-TERM DEBT OBLIGATIONS:

A summary of changes in long-term debt for the year ended April 30, 2012 is as follows:

	Balance May 1, 2011	Increases	Decreases	Balance April 30, 2012	Due within One Year
Primary Government:					
Governmental activities:					
Bonds Payable:					
General obligation bonds	\$69,687,327	\$4,680,000	\$9,065,000	\$65,302,327	\$4,595,000
Premium on bond proceeds	1,009,100	110,185	232,496	886,789	
Less: deferred loss on refunded debt	<u>605,610</u>	<u>182,383</u>	<u>137,023</u>	<u>650,970</u>	
Total bonds payable	70,090,817	4,607,802	9,160,473	65,538,146	4,595,000
Installment notes	2,884,600		292,983	2,591,617	304,697
Unfunded employer pension contributions	12,989,932	538,633		13,528,565	
Compensated absences	4,478,500	1,395,500	1,034,000	4,840,000	1,338,000
Net other post employment benefit obligation	<u>195,323</u>	<u>275,743</u>	<u>109,067</u>	<u>361,999</u>	
Total long-term debt	\$90,659,172	\$6,817,678	\$10,596,523	\$86,860,327	\$6,237,697
Business-type activities:					
Kankakee Environmental Services Utility:					
Bonds Payable:					
Revenue bonds	\$9,205,000		\$440,000	\$8,765,000	\$450,000
Discount on bond proceeds	<u>(11,986)</u>		<u>(959)</u>	<u>(11,027)</u>	
Less: deferred loss on refunded debt	<u>131,473</u>		<u>8,217</u>	<u>123,256</u>	
Total bonds payable	9,063,514	\$ -	430,824	8,632,690	450,000
Note payable		4,000,000		4,000,000	
Compensated absences	880,800	548,587	577,887	851,500	391,000
Net other post employment benefit obligation	<u>79,627</u>	<u>91,914</u>	<u>36,355</u>	<u>135,186</u>	
Total long-term debt	\$10,023,968	\$4,640,501	\$1,045,066	\$13,619,403	\$841,000
Component units:					
Capital lease obligations	\$2,952,147	\$ -	\$109,085	\$2,843,062	\$114,666

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

Long-term liabilities other than debt typically have been liquidated in the General Fund and Kankakee Environmental Services Utility.

Long-term debt is comprised of the following:

General Obligation Bonds

The City has issued several general obligation serial bonds to provide for the costs of the City's various public infrastructure and capital improvement programs. General obligation bonds at April 30, 2012, consist of the following:

\$4,860,000 City of Kankakee serial bonds dated June 1, 2003, due in annual installments on January 1 of amounts ranging from \$250,000 to \$490,000, through January 2013, plus interest ranging from 2.25% to 5.25%, payable semiannually.	\$ 340,000
\$9,600,000 City of Kankakee serial bonds dated April 1, 2004, due in annual installments on January 1 of amounts ranging from \$130,000 to \$1,820,000, through January 2020, plus interest ranging from 2.00% to 4.00%, payable semiannually.	4,115,000
\$9,160,000 City of Kankakee serial bonds dated February 1, 2005, due in annual installments on January 1 of amounts ranging from \$115,000 to \$815,000, through January 2024 plus interest ranging from 3.00% to 4.35%, payable semiannually.	7,415,000
\$9,555,000 City of Kankakee serial bonds dated September 15, 2006, due in annual installments on January 1 of amounts ranging from \$40,000 to \$1,125,000, through January 2025, plus interest ranging from 3.50% to 5.25%, payable semiannually.	8,370,000

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

	<u>Governmental Activities</u>
<p>\$5,405,000 City of Kankakee serial bonds dated August 2, 2007, due in annual installments on January 1 of amounts ranging from \$110,000 to \$700,000, through January 2027, plus interest ranging from 4.00% to 5.00%, payable semiannually.</p>	\$ 4,575,000
<p>\$1,422,327 City of Kankakee serial bonds dated August 2, 2007, due in annual installments on January 1 of amounts ranging from \$267,496 to \$402,672, through January 2018, plus interest ranging from 4.25% to 4.36%, payable annually.</p>	1,422,327
<p>\$6,930,000 City of Kankakee serial bonds dated June 1, 2008, due in annual installments on January 1 of amounts ranging from \$315,000 to \$1,075,000, through January 2024, plus interest ranging from 3.45% to 5.25% payable semiannually.</p>	6,930,000
<p>\$10,180,000 City of Kankakee serial bonds dated April 15, 2009, due in annual installments on January 1 of amounts ranging from \$80,000 to \$1,025,000 through January 2029, plus interest ranging from 2.30% to 5.00% payable semiannually.</p>	10,020,000
<p>\$14,905,000 City of Kankakee serial bonds dated April 15, 2009, due in annual installments on January 1 of amounts ranging from \$35,000 to \$2,275,000, through January 2025, plus interest ranging from 3.00% to 5.00% payable semiannually.</p>	11,090,000
<p>\$5,000,000 City of Kankakee serial bonds dated April 27, 2011, due in annual installments on January 1 of amounts ranging from \$105,000 to \$955,000 through January 2025, plus interest ranging from 2.50% to 4.90% payable semiannually.</p>	5,000,000
<p>\$370,000 City of Kankakee bonds dated April 27, 2011, due in a single installment on January 1, 2020, plus interest of 4.10% payable semiannually.</p>	370,000

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

	<u>Governmental Activities</u>
<p>\$1,310,000 City of Kankakee serial bonds dated April 27, 2011, due in annual installments on January 1 of amounts ranging from \$255,000 to \$365,000 through January 2015, plus interest ranging from 2.00% to 3.00% payable semiannually.</p>	\$ 975,000
<p>\$2,035,000 City of Kankakee bonds dated October 12, 2011, due in annual installments on January 1 of amounts ranging from \$940,000 to \$1,095,000 through January 2014, plus interest of 2.00% payable semiannually.</p>	2,035,000
<p>\$2,645,000 City of Kankakee bonds dated March 13, 2012, due in annual installments on January 1 of amounts ranging from \$80,000 to \$465,000, through January 2019, plus interest ranging from 2.00% to 2.50% payable semiannually.</p>	2,645,000
<p>Total general obligation bonds</p>	65,302,327
<p>Add: Unamortized premium on bond issuance and deferred loss on early retirement of bonds, net</p>	235,819
<p>Total bonds payable</p>	\$65,538,146

		<u>Governmental Activities</u>	<u>Total</u>
Year Ending April 30,	Principal	Interest	Total
2013	\$ 4,595,000	\$ 2,551,910	\$ 7,146,910
2014	4,955,000	2,418,883	7,373,883
2015	5,072,672	2,414,788	7,487,460
2016	5,285,125	2,255,488	7,540,613
2017	5,527,496	2,061,949	7,589,445
2018 - 2022	22,747,034	6,929,762	29,676,796
2023 - 2027	15,305,000	2,123,805	17,428,805
2028 - 2029	1,815,000	123,781	1,938,781
	<u>\$65,302,327</u>	<u>\$20,880,366</u>	<u>\$86,182,693</u>

The annual requirements to amortize all short and long-term general obligation bonds outstanding at April 30, 2012, are as follows:

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

Installment Notes

Non-interest bearing \$200,000 loan dated February 22, 2005, from the Illinois Finance Authority for the purchase of a fire truck, payable in twenty annual installments of \$10,000, commencing on November 1, 2005 through November 1, 2024.

\$2,876,532 general obligation bank note, dated January 30, 2008, secured by the full faith, credit and resources of the City, payable in 10 annual installments of \$352,500, including interest at 4.14%, through January 1, 2018.

\$500,000 Department of Housing and Urban Development Community Development Block Grant (CDBG) Section 108 loan dated February 27, 2008, secured by current and future CDBG funding allocations. The loan is payable in a one time payment of \$500,000 on December 2017, plus interest paid semi-annually at 1.64%.

Total installment notes

	Governmental Activities
\$ 130,000	
1,961,617	
500,000	
\$2,591,617	

The annual requirements to amortize all long-term installment loans outstanding at April 30, 2012, are as follows:

Year Ending April 30,	Governmental Activities		Total
	Principal	Interest	
2013	\$ 304,697	\$ 89,439	\$ 394,136
2014	316,900	77,238	394,138
2015	329,604	64,533	394,137
2016	342,836	51,301	394,137
2017	356,615	37,522	394,137
2018 - 2022	910,965	19,058	930,023
2023 - 2025	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
	\$2,591,617	\$339,091	\$2,930,708

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

Capital Lease Obligation

The City has entered into a lease agreement as lessee for financing the acquisition of the library building. This lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments in the accompanying financial statements. The following is a schedule of capital lease obligations and the minimum lease payments:

	Component Unit - Library
\$7,758,882 lease, plus interest of \$2,628,206, due in monthly installments of \$21,185, including interest, through October 2028.	
Payable from Kankakee Public Library Fund, a component unit.	\$2,843,062

The following is an analysis of the assets recorded under capital leases at April 30, 2012:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Component Units - Library: Buildings	\$7,758,883	\$1,347,374	\$6,411,509

Future minimum lease payments for all capital lease obligations:

Year Ending April 30,	Component Unit - Library
2013	\$ 254,215
2014	254,215
2015	254,215
2016	254,215
2017	254,215
2018 - 2022	1,271,076
2023 - 2027	1,271,076
2028 - 2029	<u>360,139</u>
Total minimum lease payments	4,173,366
Less: amount representing interest	(1,330,304)
Present value of minimum lease payments	\$2,843,062

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

<u>Unfunded Employer Pension Contributions</u>	Governmental Activities
Cumulative difference between the annual pension cost and the contributions funded for the Police Pension Fund	\$ 5,310,998
Cumulative difference between the annual pension cost and the contributions funded for the Firefighters' Pension Fund	7,836,985
Cumulative difference between the annual required pension cost and the contributions funded for Illinois Municipal Retirement Fund	<u>380,582</u>
Total unfunded employer pension contributions due from General Fund	<u>\$13,528,565</u>

<u>Compensated Absences</u>	Governmental Activities	Business-type Activities
Vested portion of the vacation and sick leave and other employee benefits which are expected to be paid from the governmental funds and enterprise funds.	<u>\$4,840,000</u>	<u>\$851,500</u>

Net Other Post Employment Benefits

Cumulative difference between the actuarially determined annual other post employment benefit cost and contributions made for the governmental funds and enterprise funds.

\$361,999

Revenue Bonds

Details of the revenue bond indebtedness of the City's Environmental Services Utility Fund at

April 30, 2012,
are as follows:

\$4,000,000 Sewer Utility serial bonds dated December 1, 2009, due in annual installments on May 1 of amounts ranging from \$220,000 to \$385,000, through May 1, 2024, plus interest at rates ranging from 2.00% to 5.80%, payable semiannually. \$3,555,000

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

\$2,700,000 Taxable Sewer Utility serial bonds dated December 2, 2010, due in annual installments beginning on May 1, 2022 of amounts ranging from \$300,000 to \$380,000, through May 2025, with a final single payment of \$1,440,000 due on May 1, 2030, plus interest at rates ranging from 5.35% to 5.75%, payable semiannually. \$2,700,000

\$2,740,000 Sewer Utility serial bonds dated December 2, 2010, due in annual installments on May 1 of amounts ranging from \$15,000 to \$570,000, through May 2022, plus interest at rates ranging from 2.00% to 3.90%, payable semiannually. 2,510,000

Total revenue bonds 8,765,000

Less: Unamortized discount on bond issuance and deferred loss on early retirement of bonds, net (134,283)

Total bonds payable \$8,630,717

Debt service on the above revenue bonds payable at April 30, 2012, are as follows:

Year Ending April 30,	Business-Type Activities		Total
	Principal	Interest	
2013	\$ 450,000	\$ 419,672	\$ 869,672
2014	465,000	406,813	871,813
2015	480,000	392,787	872,787
2016	500,000	376,388	876,388
2017	515,000	358,007	873,007
2018 - 2022	3,205,000	1,448,395	4,653,395
2023 - 2027	1,710,000	713,755	2,423,755
2028 - 2030	1,440,000	144,625	1,584,625
	<u>\$8,765,000</u>	<u>\$4,260,442</u>	<u>\$13,025,442</u>

Note Payable

\$4,000,000 Line of Credit note dated January 17, 2012, secured by the full faith, credit and resources of the City, payable in a one time payment of \$4,000,000 on July 2013, plus interest paid monthly at a rate 250 basis points above the LIBO rate. (Current rate .88%) \$4,000,000

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

Revenue bond ordinances of the Environmental Services Utility Fund require that certain reserve accounts be maintained at designated minimum dollar amounts or that specific monthly transfers be made to such accounts. At April 30, 2012, the amounts restricted for such accounts in the Utility Fund are as follows:

Operation and maintenance	\$ 782,145
Bond reserve	1,464,700
Reserve and replacement	500,000
Bond and interest	<u>72,473</u>
	\$2,819,318

Activity in the reserve accounts during the year ended April 30, 2012 was as follows:	
Environmental Services Utility Fund:	
Restricted balance as of May 1, 2011	\$2,759,653
Transfer required by ordinance	929,263
Revenue bond principal	(440,000)
Revenue bond interest	<u>(429,598)</u>
Restricted balance as of April 30, 2012	\$2,819,318

The reserve account balances are represented in the Utility Fund as restricted cash and investments. At April 30, 2012 the above amounts were sufficient to meet the minimum balance or reserve account transfer requirements of the revenue bond ordinances.

The Utility covenants in the bond ordinance to establish, maintain and collect at all times fees, charges and rates for the use and service of the system, sufficient at all times to pay operating and maintenance costs, to pay the principal of and interest on all outstanding revenue bonds of the City which by their terms are payable solely from the revenues, to provide net revenues in each fiscal year in the amount of not less than 120 percent of the current debt service requirement for all outstanding bonds for such fiscal year, and to the extent necessary after the application of the net revenues available pursuant to the rate covenant described in this paragraph, such additional amounts as may be required to provide an adequate depreciation fund, and to provide for the creation and maintenance of the respective reserve accounts described above. "Current Debt Service Requirement" as used in this paragraph means the amount required to be credited under the bond ordinance to the bond and interest account in a given fiscal year. "Revenues" as defined in the bond ordinance and as used in the covenant calculation does not include proceeds from the sale of capacity. During the year ended April 30, 2012, the Utility did comply with this rate covenant. The covenant calculation is included on page 112.

Required Bond Indenture Disclosures

Insurance Coverage - The plant, buildings and contents of the Kankakee Environmental Services Utility were insured at April 30, 2012 for \$7,681,264 under the City of Kankakee master policy with the U.S. Specialty Insurance Company. The Utility is also included on the master umbrella liability policy for the City of Kankakee, Illinois, with the U.S. Specialty Insurance Company. The master policy includes the following significant coverages:

Property damage	\$30,744,404
General liability	10,000,000
Auto liability	6,000,000
Policy limits	

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued):

Customer and Flow Information - Most of the customers have a water meter; the number of unmetered customers is negligible. As of April 30, 2012 there were 8,001 customers providing sewer charge revenue as follows:

	Number of Customers	Sewer Charges
Residential and commercial	7,957	\$3,718,157
Industrial and institutional	<u>44</u>	<u>5,708,656</u>
Total	8,001	\$9,426,813

User Rates - The rates in effect at April 30, 2012 were as follows:

Flow charge (100 cu. ft.)	\$ 4.00
BOD surcharge (lb.)	.40
SS surcharge (lb.)	.40
FOG surcharge (lb.)	.40
GW contaminated (100 cu. ft.)	9.00
Fixed charge (month)	27.50
IPP charges	3%

Outstanding Bond Issues - 2009 bonds due May 1, 2011 to 2019 are noncallable in advance of maturity. 2009 bonds due May 1, 2020 to 2024 are callable on or after May 1, 2019, 2010A and B bonds due May 1, 2011 to 2019 are noncallable in advance of maturity. 2010A and B bonds due May 1, 2020 to 2030 are callable on or after May 1, 2020.

NOTE 11 - PROPERTY TAXES:

Property taxes are levied each year on all taxable real property located in the City. The City must file its tax levy ordinance by the last Tuesday of December of each year. The owner of real property on January 1 (lien date) in any year is liable for taxes of that year. Property taxes are collected by the Kankakee County Collector who remits to the City its share of the collection. Taxes levied for calendar year 2010 were due, payable, and collected in two installments in June and September 2011.

Revenue for property taxes is recognized in the governmental funds in the year for which the taxes are intended to finance and the funds are available. The City considers property tax revenue to be available if it is collected during the current year or within 60 days after year end. Property taxes levied for calendar year 2010 are intended to finance the fiscal year 2012 expenditures. Accordingly, the City recognized revenue during the year ended April 30, 2012 for collections from the calendar year 2010 levy if it was received by June 30, 2012. Property taxes levied for calendar year 2011, which will be collected in fiscal year 2013, are recorded as receivables and deferred revenue as of April 30, 2012. The City and its component units have not deferred property taxes receivable based on the availability criteria at April 30, 2012. The 2012 tax levy, which attaches as an enforceable lien on property as of January 1, 2012, has not been recorded as a receivable as of April 30, 2012, as the tax has not yet been levied by the City and will not be levied until December 2012, and therefore, the levy is not measurable at April 30, 2012.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 12 - INTERFUND TRANSFERS:

Fund Transferred From	Fund Transferred To			Total
	General	Kankakee Environmental Service Utility	Nonmajor Governmental	
General		\$1,200,000		\$1,200,000
Kankakee Environmental Services Utility	\$120,000		\$ 940,203	1,060,203
Nonmajor Governmental	21,429		1,789,550	1,810,979
	\$141,429	\$1,200,000	\$2,729,753	\$4,071,182

The following paragraphs provide information concerning the various interfund transfers for the year ended April 30, 2012:

The General Fund transferred \$1,200,000 to the Kankakee Environmental Services Utility to provide for the operations of the Department of Public Works.

The Kankakee Environmental Services Utility Fund made the following transfers:

Transferred \$120,000 to the General Fund as payment in lieu of taxes.

Transferred \$940,203 to the Debt Service Fund to provide for bond and interest retirement.

The Park and Senior Aides Funds were closed during the year and transferred excess cash of \$19,128 and \$2,301, respectively, to the General Fund.

The following Tax Increment Financing Districts transferred funds to the Debt Service Fund to provide for bond and interest retirement:

Tax Increment Financing District No. 1	\$481,525
Tax Increment Financing District No. 5	127,623
Tax Increment Financing District No. 6	259,963
Tax Increment Financing District No. 7	37,908
Tax Increment Financing District No. 8	621,118

NOTE 12 - INTERFUND TRANSFERS (Continued):

Tax Increment Financing District No. 2 transferred \$232,000 to Tax Increment Financing District No. 1 upon the closing Tax Increment Financing District No. 2, to write-off an outstanding interfund receivable for costs incurred on behalf of Tax Increment Financing District No. 1 in prior years.

The General Obligation Bonds, Series 2003A Fund transferred \$24,906 to the General Obligation Bonds, Series 2011 Fund from its excess cash upon the refunding of the 2003A bonds.

The General Obligation Bonds, Series 2003B Fund transferred \$4,507 to the General Obligation Bonds, Series 2012 Fund from its excess cash upon the refunding of the 2003B bonds.

NOTE 13 - DEFERRED REVENUE:

The balance in the deferred revenues at April 30, 2012, is composed of the following elements:

	Unavailable	Unearned
Governmental Funds:		
General Fund:		
Property taxes receivable		\$ 6,288,543
Unexpended grant receipts		197,007
Advance collection of licenses and fees		134,233
Franchise fee receivable	\$ 21,353	
Nonmajor Governmental Funds:		
Property taxes receivable		7,926,847
Loans receivable net of allowance for uncollectible amounts	537,861	
Total governmental funds	\$559,214	\$14,546,630

Component Units:

Library Fund:		
Property taxes receivable		\$1,691,870
Unexpended grant receipts		1,260
Special Service Area # 1:		
Property taxes receivable		1,693,130
Total component units		127,900
		\$1,821,030

NOTE 14 - RELATED PARTY TRANSACTIONS:

The following describes transactions between the City and its component units for the year ended April 30, 2012:

From	To	Amount	Purpose
Capital Projects Fund	Library Fund	\$212,382	To provide for capital projects at the Library.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
 April 30, 2012

NOTE 15 - SEGMENT INFORMATION:

Kankakee Environmental Services Utility - Accounts for the operation of the City sewer and solid waste systems. The City has issued revenue bonds to support its sewer utility activities. The fund financial statements report the Utility as a major fund. All segment report requirements are included in the fund financial statements.

NOTE 16 - FEDERAL PROGRAM AUDITS:

The City participates in a number of federally assisted grant programs, principal of which are the Community Development Block Grant, HOME Grants, Lead-based Paint Hazard Control Program and various other public safety grant programs. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of April 30, 2012, significant amounts of grant expenditures have not been audited by the grantors, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

NOTE 17 - COMMITMENTS:

Lease Commitments

In July 1988, the City leased the Kankakee Dam for 60 years from the Illinois Department of Conservation for the purpose of constructing, operating and maintaining the Hydroelectric Plant. The annual lease payment is based on the number of kilowatt hours of electricity produced by the Hydroelectric Plant plus \$1,200 each year. The annual lease payment for the year ended April 30, 2012 was \$3,687.

Kankakee Environmental Services Utility entered into a lease agreement with Space Center Chicago, Inc. on October 5, 2001 to lease 34,922 square feet of office and warehouse space. The lease was scheduled to commence on December 15, 2001, and continue for a period of 240 months. The actual commencement date was April 2002. Rent consists of a base amount plus additional rent composed of operating expenses, amortization of tenant improvements and Common Area Maintenance charges. Rent expense for the year ended April 30, 2012 was \$101,807.

Kankakee Environmental Services Utility entered into a lease agreement with the Village of Manteno on February 20, 2006, to provide the means and use of the City's ability to transport and treat wastewater generated by the Village of Manteno and provide for the compensation by Manteno for the rights to utilize the collection and treatment capacity owned by Kankakee. The Village of Manteno will lease the transport and treatment capacity of 1,000,000 gallons per day. (365,000,000 gallons annually) from the City for a period of 20 years for a sum of \$150,000 per year. The annual lease payment received for the year ended April 30, 2012 was \$150,000.

NOTE 17 - COMMITMENTS (Continued):

Kankakee Environmental Services Utility entered into an intergovernmental agreement with the Village of Chebanse on April 5, 2004, to connect to the City's sewer system for providing sanitary sewer service for the residents of Chebanse. For the year ended April 30, 2012, the Utility received \$ 143,876 based upon the number of connections established for the residents of Chebanse. For the year ended April 30, 2012, the Utility received \$143,876 based upon the number of connections established for the residents of Chebanse.

Construction Commitments

The City has several active construction projects as of April 30, 2012. These projects and the City's commitment with contractors at April 30, 2012 are as follows:

Project	Spent-to-date	Remaining Commitment
Governmental activities: Street overlay project	\$49,380	\$53,185
Business-type activities: Sewer inflow project Stone Street lift station	\$135,985 315,650	\$ 9,200 19,406
	<u>\$451,635</u>	<u>\$28,606</u>

NOTE 18 - INVESTMENT IN JOINT VENTURE:

Kankakee River Metropolitan Agency

Effective May 1, 1996, pursuant to a Municipal Joint Sewage Treatment Agency Intergovernmental Agreement, the City of Kankakee and the villages of Aroma Park, Bourbonnais, and Bradley agreed to the establishment of an independent agency with authority to operate the Regional Wastewater Treatment Facility (RWTF), raise revenue and exercise other powers as necessary. The independent agency created is the Kankakee River Metropolitan Agency (KRMA). The agreement requires a seven member board comprised of four persons appointed by the Mayor of the City of Kankakee and one person appointed by the Mayor of each village. A majority of five affirmative votes is required to modify this agreement, modify the methodology or the amount of user charges, approve bond issues or any appropriation in excess of \$50,000 or to change the membership of the Agency. On April 22, 1999, KRMA acquired ownership of the RWTF.

As of April 30, 2012, the City has recorded in the Environmental Services Utility Fund an investment in the joint venture of \$(465,850) relative to its investment in KRMA and a due to joint venture in the amount of \$173,098 which is reflected in accounts payable.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 18 - INVESTMENT IN JOINT VENTURE (Continued):

Wi-Fi Kankakee, LLC

Effective May 15, 2006, pursuant to a joint operating agreement, the City and *Kankakee Daily Journal* (KDJ), a local newspaper company, formed a limited liability company named Wi-Fi Kankakee, LLC (Wi-Fi), with an equal ownership of 50 percent each for the City and KDJ. The purpose of Wi-Fi is to design, acquire, establish, install, operate, maintain and own a system by which authorized individual users (residents, businesses, visitors) may obtain and use, within the boundaries of the City, wireless access to the internet. The agreement requires each item of Wi-Fi's income, gain, loss, deduction and credit be allocated equally to the City and KDJ.

As of April 30, 2012, the City has recorded in the Environmental Services Utility Fund an investment in joint venture of \$(7,438), relative to its investment in Wi-Fi.

Audited financial statements of Wi-Fi are not available. At April 30, 2012, the City has recorded in the Environmental Services Utility Fund an equity interest in joint venture income (loss) of Wi-Fi in the amount of \$(6,736).

NOTE 19 - RISK MANAGEMENT AND LITIGATION:

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City utilizes conventional outside insurance to cover its exposure to such liabilities and worker's compensation claims with standard retention levels. In addition, a safety committee works at prevention activities to keep risk exposure at a minimum level through employee education and monitoring of risk control activities. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City is a defendant in various lawsuits. Most recently, the City has been named in two lawsuits in regards to its sales tax incentive agreements. See Note 20 for additional details about the agreements. The City has also been named in a lawsuit in regards to a contract for services dispute. Although the outcome of these lawsuits is presently not determinable, in the opinion of the City's Attorney and management, the resolution of these matters will not materially affect the financial condition of the City or any of the individual funds. Therefore, the General Fund contains no provision for estimated claims.

NOTE 20 - SALES TAX INCENTIVES:

The City has entered into various sales tax sharing agreements with several retail firms to generate additional revenue for the General Fund. These tax sharing programs are based on the retail firm's willingness to site a purchasing and/or a sales approval office within the boundaries of the City. These agreements provide for rebating a portion of the sales taxes generated on the transactions conducted within the City by the partnering firm. During the fiscal year ended April 30, 2012, \$11,843,171 in sales taxes were rebated under these agreements. At April 30, 2012, the City owed \$4,268,389 in sales tax incentives to various firms which are reflected in accounts payable in the General Fund.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 18 - INVESTMENT IN JOINT VENTURE:

Financial statements of KRMA can be obtained from the City's accounting department. Pertinent financial information for the joint venture as of April 30, 2012 is as follows:

Statement of net assets:	
Current assets	\$ 4,057,765
Restricted assets and bond issuance costs	4,026,075
Capital assets, net	<u>25,385,581</u>
Total assets	<u>33,469,421</u>
Current liabilities	10,996,753
Long-term liabilities	<u>19,530,703</u>
Total liabilities	<u>30,527,456</u>
Total net assets	<u>\$ 2,941,965</u>

Statement of revenues, expenses and changes in net assets:

Operating revenues	\$ 7,657,545
Operating expenses	<u>(6,977,522)</u>
Other income (expense), net	<u>(951,712)</u>
Change in net assets	(271,689)
Ownership percentage	53.03%
Utility's share of change in net assets (equity interest in joint venture income)	<u>\$ (121,250)</u>

An explosion at the facility on December 27, 2010 destroyed a building and certain plant equipment. KRMA has recorded a \$6,000,000 estimated insurance recovery related to the fair value of the loss assets based on consultant's estimates. The insurance company and management have not yet settled on a final amount. This estimate could significantly change.

Because of the explosion, KRMA properly submitted a claim to its insurer but is not anticipating receiving insurance proceeds until 2013. Therefore, KRMA required funding to facilitate repairs and reconstruction work at its facility before insurance proceeds arrived. KRMA entered into an agreement with the City on July 19, 2011, requiring the City to establish a \$2,500,000 line of credit at a local bank on behalf of KRMA. This agreement required KRMA to satisfy any balance due on the line of credit and pay all costs incurred by the City in establishing this line of credit. On January 17, 2012, the City and KRMA extended this line of credit to a maximum of \$5,000,000. The line of credit at April 30, 2012, had an outstanding balance of \$4,000,000.

As of April 31, 2012, the City has recorded in the Kankakee Environmental Services Utility Fund a note payable of \$4,000,000 and a corresponding due from joint venture in the same amount.

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 21 - DEFICIT FUND BALANCE:

At April 30, 2012, the following funds had a deficit fund balance. This deficit is not in violation of any state law.

Tax Increment Financing District No. 6 Fund	\$ 22,972
General Obligation Bonds, Series 2008	3,142
General Obligation Bonds, Series 2011	120,438

NOTE 22 - RESTATEMENT OF FUND EQUITY/NET ASSETS:

The City has restated fund balance and net assets for its fund financial statements and government-wide financial statements as of May 1, 2011, to correct the sales tax revenue recognized and related sales tax incentives expended in the prior year and to remove assets erroneously capitalized in the prior year.

<u>Fund Statements</u>	<u>General Fund</u>
Fund balance / Net assets, May 1, 2011, as previously reported	<u>\$1,560,447</u>
Restated for:	
Sales tax revenue	1,462,218
Sales tax incentives	(1,236,636)
Prior period adjustment	<u>225,582</u>
Fund balance, May 1, 2011, restated	<u>\$1,786,029</u>
<u>Government-Wide Financial Statements</u>	
Net assets, May 1, 2011, as previously reported	<u>\$10,619,917</u>
Restated for:	
Sales tax revenue	1,462,218
Sales tax incentives	(1,236,636)
Capital assets, net of accumulated depreciation	<u>(403,843)</u>
Prior period adjustment	<u>(178,261)</u>
Net assets, May 1, 2011, restated	<u>\$10,441,656</u>

CITY OF KANKAKEE, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2012

NOTE 23 - BOND REFUNDING:

Refunding of General Obligation Bonds, Series 2003A

On October 12, 2011 the City issued \$2,035,000 of General Obligation Bonds, Series 2011D, with an average interest rate of 2.0 percent from which \$2,052,500 were used to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of current refunding \$2,000,000 of General Obligation Bonds, Series 2003A with an average interest rate of 6.08 percent.

As a result of the above refunding, the refunded bonds were retired and liability was removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$52,500. This amount is being netted against the new debt and amortized over the lives of the refunded debt, which is shorter than the life of the new debt issued. The City decreased its total debt service requirements (difference between the cash flow requirements to service old and new debt) over the next 2 years by \$64,625, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$65,067.

Refunding of General Obligation Bonds, Series 2003B

On March 13, 2012, the City issued \$2,645,000 of General Obligation Bonds, Series 2012, with an average interest rate of 2.42 percent from which all the proceeds were used to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of the advance refunding of \$2,530,000 of General Obligation Bonds, Series 2003B with an average interest rate of 5.48 percent.

As a result of the above refunding, the refunded bonds were retired and the liability was removed from the governmental activities column of the statements of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$129,884. This amount is being netted against the new debt and amortized over the lives of the refunded debt, which is the same as the life of the new debt issued. The City decreased its total debt service requirements (difference between the cash flow requirements to service old and new debt) over the next 7 years by \$232,463, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$213,909.

NOTE 24 - SUBSEQUENT EVENTS:

On October 11, 2012, the City of Kankakee issued \$3,915,000 General Obligation Bonds, Series 2012A, which matures serially January 2014 – 2024 at various interest rates. The purpose of these bonds is for the advanced refunding of \$3,745,000 of General Obligation Bonds, Series 2005.

The City of Kankakee is also in the process of issuing \$3,790,000 General Obligation Bonds, Series 2012B which is projected to mature serially January 2014 – 2020 at various interest rates. The intended purpose of these bonds is for the current refunding of \$3,825,000 of General Obligation Bonds, Series 2004. It is expected the bonds will be available on November 1, 2012.

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
ILLINOIS MUNICIPAL RETIREMENT FUND
April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2011	\$ 15,490,536	\$ 20,485,433	\$ 4,994,897	75.62%	\$ 5,818,925	85.84%
2010	14,660,404	19,042,169	4,381,765	76.99%	5,853,164	74.86%
2009	14,047,445	17,989,344	3,941,899	78.09%	5,695,408	69.21%
2008	14,024,803	17,070,490	3,045,687	82.16%	5,655,415	53.85%
2007	16,700,977	16,228,325	(472,652)	102.91%	5,448,065	(8.68%)
2006	15,830,997	16,047,139	116,142	99.28%	5,300,924	2.19%
2005	15,029,323	14,644,035	(385,288)	102.63%	5,175,035	(7.45%)
2004	13,670,956	13,269,673	(401,283)	103.02%	5,070,450	(7.91%)
2003	14,944,651	13,991,022	(953,629)	106.82%	5,311,719	(17.95%)
2002	14,741,685	12,766,158	(1,975,527)	115.47%	5,356,081	(36.88%)

On a market value basis, the actuarial value of assets as of December 31, 2011, is \$14,702,093. On a market basis, the funded ratio would be 71.77%.

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
POLICE PENSION FUND
April 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2011	\$ 15,528,178	\$ 47,690,763	\$ 32,162,585	32.56%	\$ 4,694,622	685.09%
2010	13,443,659	40,648,322	27,204,663	33.07%	4,888,208	556.54%
2009	11,900,298	35,675,410	23,775,112	33.36%	4,783,798	496.99%
2008	12,940,099	33,676,363	20,736,264	38.42%	4,367,019	474.84%
2007	12,567,316	31,376,263	18,808,947	40.05%	4,189,099	449.00%
2006	11,760,602	30,146,624	18,386,022	39.01%	4,088,956	449.65%
2005	11,178,721	27,683,110	16,504,389	40.38%	3,689,544	447.33%
2004	10,839,066	26,207,141	15,368,075	41.36%	3,697,174	415.67%
2003	10,140,012	24,391,727	14,251,715	41.57%	3,372,609	422.57%
2002	10,452,757	23,056,893	12,604,136	45.33%	3,395,319	371.22%

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
April 30, 2012

Actuarial Valuation Date April 30,	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry-Age Normal (b)	Funded Ratio (a/b) (a/b)	Unfunded Actuarial Accrued Liability (U.AAL) (b-a)	Active Members' Covered Payroll (c)	U.AAL as a Percentage of Covered Payroll ((b-a)/c)
2012	\$ -0-	\$ 5,835,321	0.00%	\$ 5,835,321	\$ 14,194,202	41.11%
2011	-0-	5,835,321	0.00%	5,835,321	14,375,604	40.59%
2010	-0-	3,220,549	0.00%	3,220,549	14,145,833	22.77%
2009	-0-	3,220,549	0.00%	3,220,549	12,852,862	25.06%

The City implemented GASB Statement No. 45 for the fiscal year ended April 30, 2009. Information for prior years is not available.

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
FIREFIGHTERS' PENSION FUND
April 30, 2012

Actuarial Valuation Date April 30,	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry-Age Normal (b)	Unfunded AAL (U.AAL) (b-a)	Funded Ratio (a/b) (a/b)	Covered Payroll (c)	U.AAL as a Percentage of Covered Payroll ((b-a)/c)
2011	\$ 8,820,435	\$ 41,794,307	\$ 32,973,872	21.10%	\$ 3,680,655	895.87%
2010	8,284,059	37,037,202	28,753,143	22.37%	3,634,232	791.18%
2009	7,716,547	34,495,541	26,778,994	22.37%	3,666,627	730.34%
2008	10,207,462	31,736,197	21,528,735	32.16%	2,973,182	724.10%
2007	10,578,956	30,541,100	19,962,144	34.64%	3,008,348	663.56%
2006	10,236,367	29,094,938	18,858,571	35.18%	2,866,921	657.80%
2005	10,147,331	27,661,230	17,513,899	36.68%	2,673,932	654.99%
2004	10,431,881	26,119,708	15,687,827	39.94%	2,427,257	646.32%
2003	10,052,187	26,192,190	16,140,003	38.38%	2,352,187	686.17%
2002	10,819,597	25,431,162	14,611,565	42.54%	2,299,154	635.52%

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FIREFIGHTERS' PENSION FUND
April 30, 2012

Year Ended April 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2012	\$ 2,117,020	\$ 2,117,020	100.00%
2011	2,046,132	2,046,132	100.00%
2010	1,518,183	1,518,183	100.00%
2009	1,400,985	1,400,985	100.00%
2008	1,303,662	1,303,662	100.00%
2007	1,222,675	1,222,675	100.00%
2006	1,082,677	1,082,677	100.00%
2005	1,085,807	1,090,926	100.47%
2004	984,722	984,722	100.00%
2003	874,715	887,458	101.46%

CITY OF KANKAKEE, ILLINOIS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
POLICE PENSION FUND
April 30, 2012

Year Ended April 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2012	\$ 1,968,889	\$ 1,968,889	100.00%
2011	1,794,582	1,794,582	100.00%
2010	1,417,545	1,417,545	100.00%
2009	1,283,420	1,283,420	100.00%
2008	1,234,017	1,234,017	100.00%
2007	1,104,725	1,104,725	100.00%
2006	1,035,423	1,035,423	100.00%
2005	954,929	954,259	99.93%
2004	856,688	856,688	100.00%
2003	701,806	701,806	100.00%

CITY OF KANKAKEE, ILLINOIS
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 OTHER POST-EMPLOYMENT BENEFIT PLAN
 April 30, 2012

Year Ended April 30,	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
2012	\$ 363,074	\$ 145,422	40.05%
2011	202,103	112,792	55.81%
2010	202,103	112,792	55.81%
2009	204,545	112,792	55.14%

The City implemented GASB Statement No. 45 for the fiscal year ended April 30, 2009.
 Information for prior years is not available.

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APPENDIX B
DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to any Tender/Remarketing Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to any Tender/Remarketing Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to any Tender/Remarketing Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX C
PROPOSED FORM OF OPINION OF BOND COUNSEL
[LETTERHEAD OF CHAPMAN AND CUTLER LLP]
[TO BE DATED CLOSING DATE]

We hereby certify that we have examined certified copy of the proceedings (the “*Proceedings*”) of the City Council of the City of Kankakee, Kankakee County, Illinois (the “*City*”), passed preliminary to the issue by the City of its fully registered Taxable Sewer Revenue Bonds, Series 2013A (the “*2013A Bonds*”), to the amount of \$2,170,000, dated the date hereof, in denominations \$5,000 or authorized integral multiples thereof, due and payable serially on May 1 of the years and in the amounts as follows:

YEAR	AMOUNT (\$)	RATE (%)
2017	215,000	2.910
2018	220,000	3.110
***	***	***
2020	465,000	3.830
***	***	***
2023	775,000	4.780
***	***	***
2025	495,000	5.130

Each of the 2013A Bonds bears interest from the later of its dated date as stated above or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of each such 2013A Bond, respectively, is paid or duly provided for, such interest (computed upon the basis of a 360-day year of twelve 30-day months) being payable on May 1 and November 1 of each year, commencing on May 1, 2014.

The 2013A Bonds due on May 1 of the years 2020, 2023 and 2025, are Term Bonds and are subject to mandatory redemption prior to maturity by operation of the Bond Fund at a price of par and accrued interest, without premium, on May 1 of the years and in the amounts as follows:

FOR THE 2020 TERM BOND

YEAR	AMOUNT (\$)
2019	230,000
2020	235,000 (stated maturity)

FOR THE 2023 TERM BOND

YEAR	AMOUNT (\$)
2021	245,000
2022	260,000
2023	270,000 (stated maturity)

FOR THE 2025 TERM BOND

YEAR	AMOUNT (\$)
2024	285,000
2025	210,000 (stated maturity)

Based upon such examination, we are of the opinion that the Proceedings show lawful authority for the issuance of the 2013A Bonds under the laws of the State of Illinois now in force.

We further certify that we have examined form of bond prescribed for said issue and find the same in due form of law, and in our opinion the 2013A Bonds, to the amount named, constitute valid and legally binding special obligations of said City, and, except that the rights of the owners of the 2013A Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered in law or at equity, including the exercise of judicial discretion, are payable, ratably and equally with certain Taxable Sewer Revenue Bonds, Series 2009, Taxable Sewer Revenue Bonds, Series 2010A (Recovery Zone Economic Development Bonds - Direct Pay), Sewer Revenue Refunding Bonds, Series 2010B, and Sewer Revenue Refunding Bonds, Series 2013B, of the City, solely from the Net Revenues derived from the operation of the combined waterworks and sewerage system of said City. Additional parity obligations may be issued in the future under the terms of the ordinance authorizing the 2013A Bonds.

It is our opinion that, under present law, interest on the 2013A Bonds is includible in gross income of the owners thereof for federal income tax purposes. Ownership of the 2013A Bonds may result in other federal tax consequences to certain taxpayers. 2013A Bondholders should consult their own tax advisors concerning tax consequences of ownership of the 2013A Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the 2013A Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

PROPOSED FORM OF OPINION OF BOND COUNSEL
[LETTERHEAD OF CHAPMAN AND CUTLER LLP]
[TO BE DATED CLOSING DATE]

We hereby certify that we have examined certified copy of the proceedings (the “*Proceedings*”) of the City Council of the City of Kankakee, Kankakee County, Illinois (the “*City*”), passed preliminary to the issue by the City of its fully registered Sewer Revenue Refunding Bonds, Series 2013B (the “*2013B Bonds*”), to the amount of \$3,550,000, dated the date hereof, in denominations \$5,000 or authorized integral multiples thereof, due and payable serially on May 1 of the years and in the amounts as follows:

YEAR	AMOUNT (\$)	RATE (%)
2028	1,090,000	4.375
***	***	***
2031	1,145,000	4.625
***	***	***
2034	1,315,000	4.875

Each of the 2013B Bonds bears interest from the later of its dated date as stated above or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of each such Bond, respectively, is paid or duly provided for, such interest (computed upon the basis of a 360-day year of twelve 30-day months) being payable on May 1 and November 1 of each year, commencing on May 1, 2014.

The 2013B Bonds due on May 1 of the years 2028, 2031 and 2034, are Term Bonds and are subject to mandatory redemption prior to maturity by operation of the Bond Fund at a price of par and accrued interest, without premium, on May 1 of the years and in the amounts as follows:

FOR THE 2028 TERM BOND

YEAR	AMOUNT (\$)
2025	95,000
2026	320,000
2027	330,000
2028	345,000 (stated maturity)

FOR THE 2031 TERM BOND

YEAR	AMOUNT (\$)
2029	365,000
2030	380,000
2031	400,000 (stated maturity)

FOR THE 2034 TERM BOND

YEAR	AMOUNT (\$)
2032	415,000
2033	440,000
2034	460,000 (stated maturity)

The 2013B Bonds are subject to redemption prior to maturity at the option of the City, from any available monies, on May 1, 2023, and any date thereafter, in whole or in part, and if in part in such principal amounts and from such maturities as determined by the City and within any maturity by lot, at a redemption price of par plus accrued interest to the date fixed for redemption.

Based upon such examination, we are of the opinion that the Proceedings show lawful authority for the issuance of the 2013B Bonds under the laws of the State of Illinois now in force.

We further certify that we have examined form of bond prescribed for said issue and find the same in due form of law, and in our opinion the 2013B Bonds, to the amount named, constitute valid and legally binding special obligations of said City, and, except that the rights of the owners of the 2013B Bonds and the enforceability of the 2013B Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered in law or at equity, including the exercise of judicial discretion, are payable, ratably and equally with certain Taxable Sewer Revenue Bonds, Series 2009, Taxable Sewer Revenue Bonds, Series 2010A (Recovery Zone Economic Development Bonds - Direct Pay), Sewer Revenue Refunding Bonds, Series 2010B, and Taxable Sewer Revenue Bonds, Series 2013A, of the City, solely from the Net Revenues derived from the operation of the combined waterworks and sewerage system of said City. Additional parity obligations may be issued in the future under the terms of the ordinance authorizing the 2013B Bonds.

It is our opinion that, subject to the City's compliance with certain covenants, under present law, interest on the 2013B Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "*Code*"), but we express no opinion as to whether interest on the 2013B Bonds is taken into account in computing adjusted current earnings, which is used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such City covenants could cause interest on the 2013B Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the 2013B Bonds. Ownership of the 2013B Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the 2013B Bonds. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the 2013B Bonds and on the yield on certain investments by Dunbar Breitweiser & Company, LLP, certified public accountants.

It is also our opinion that the 2013B Bonds are "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the 2013B Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.