

# Sales Tax Securitization Corporation

(A Component Unit of the City of Chicago, Illinois)

Basic Financial Statements as of December 31,  
2017 and for the period from October 17, 2017  
(Date of Inception) to December 31, 2017, and  
Independent Auditors' Report

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors of the  
Sales Tax Securitization Corporation  
City of Chicago, Illinois:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sales Tax Securitization Corporation (the "Corporation"), a component unit of the City of Chicago, Illinois (the "City"), as of December 31, 2017 and for the period from October 17, 2017 (Date of Inception) to December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation, as of December 31, 2017, and the respective changes in financial position thereof for the period from October 17, 2017 (Date of Inception) to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

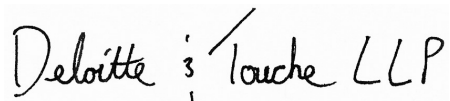
### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

June 29, 2018

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF DECEMBER 31, 2017 AND FOR THE PERIOD FROM OCTOBER 17, 2017**  
**TO DECEMBER 31, 2017**  
**(Amounts in thousands, except as otherwise noted)**

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The following is a narrative overview and analysis of the financial activities of the Sales Tax Securitization Corporation (the "STSC" or the "Corporation") as of December 31, 2017 and for the period from October 17, 2017 (Date of Inception) to December 31, 2017. It should be read in conjunction with the STSC's government-wide financial statements, governmental funds financial statements and the notes to the basic financial statements. This report is made up of three sections: (1) management's discussion and analysis (this section); (2) basic financial statements; and (3) the statistical section. The basic financial statements consist of three parts: (1) the government-wide financial statements; (2) the governmental funds financial statements; and (3) the notes to the basic financial statements.

The government-wide financial statements, which include the statement of net position and the statement of activities, are presented to display information about the Corporation as a whole, in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). This is to provide the reader with a broad overview of the STSC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The STSC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which are recognized when due.

The reconciliations of the governmental funds balance sheet to the statement of net position and the reconciliations of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

**Financial Highlights and Overall Analysis—Government-Wide Financial Statements**

On December 14, 2017, the STSC issued \$743.7 million of bonds (the "2017 Bonds") to provide funds for the Corporation to use, along with the proceeds of any additional bonds issued by the STSC, to purchase from the City of Chicago (the "City") all of the City's right, title and interest in and to certain sales tax revenue collected by the State of Illinois (the "State") pursuant to a sale agreement authorized by Division 13 of Article 8 of the Illinois Municipal Code (the "Sales Tax Revenues"). The Sales Tax Revenues consist of (a) revenues resulting from collection of three separate taxes (collectively, the "Home Rule Sales Tax Revenues") imposed by the City pursuant to its home rule powers and authority granted by State statute and (b) revenues resulting from the collection of four separate taxes (collectively, the "Local Share Sales Tax

Revenues”) imposed by the State. The proceeds from the 2017 Bonds were applied by the City to refund all of the outstanding City of Chicago Sales Tax Revenue Bonds and refund certain of the City’s outstanding general obligation bonds.

The following summarizes the activities of the STSC for the period from October 17, 2017 (Date of Inception) to December 31, 2017:

Revenues—	
Sales Tax revenue	<u>\$176,994</u>
 Total Revenues	 <u>176,994</u>
Expenses:	
Payment to the City of Chicago	150,810
Amortization of Deferred Outflows	2,052
Interest and Other Fiscal Charges	2,747
Other	<u>10</u>
 Total Expenses	 <u>155,619</u>
 Change in net position	 21,375
Net position — Beginning of period	<u>-</u>
 Net position — End of period	 <u>\$ 21,375</u>

The STSC’s revenues for fiscal year 2017 were comprised of Sales Tax Revenues earned from October 17, 2017 to December 31, 2017. Expenses were primarily comprised of payments of residual Sales Tax Revenues to the City.

The following summarizes the STSC’s assets, liabilities, and net position as of December 31, 2017:

Assets—	
Non-capital	<u>\$ 177,419</u>
Total Assets	<u>177,419</u>
Deferred outflows	<u>769,064</u>
Total Assets and Deferred Outflows	<u>946,483</u>
Liabilities:	
Current liabilities	151,176
Long-term liabilities	<u>773,932</u>
Total Liabilities	<u>925,108</u>
Net Position—	
Restricted for debt service	21,135
Unrestricted	<u>240</u>
Total net position	<u>\$ 21,375</u>

As of December 31, 2017, the STSC’s assets consisted primarily of Sales Tax Revenues receivable from the State.

The STSC’s liabilities are almost entirely composed of residual Sales Tax Revenues payable to the City, 2017 Bonds payable, and unamortized original issue premium. Information on STSC’s long-term liabilities can be found in Note 3 of this report.

The deferred outflows of resources reported in fiscal year 2017 represent the unamortized portion of the 2017 Bonds proceeds sold by the Corporation to the City in exchange for the Sales Tax Revenue. The deferred outflows will be amortized over the life of the 2017 Bonds.

**Financial Highlights and Overall Analysis—Governmental Funds Financial Statements**

The STSC reports governmental activity using two funds: (1) a general fund (“GF”) and (2) a debt service fund (“DSF”).

The following summarizes the changes in the GF fund balances for the period from October 17, 2017 (Date of Inception) to December 31, 2017:

General Fund	
Revenues:	
Sales tax revenue	<u>\$151,060</u>
Total revenues	<u>151,060</u>
Expenditures:	
General and administrative	10
Payments to City	<u>150,810</u>
Total expenditures	<u>150,820</u>
Net change in fund balances	240
Fund balances—Beginning of period	<u>-</u>
Fund balances—End of period	<u>\$ 240</u>

GF revenues were entirely composed of Sales Tax Revenues. Amounts not withheld for operations will be returned to the City ("Payments to City").



The following summarizes the changes in the fund balances of the STSC's DSF for the period from October 17, 2017 (Date of Inception) to December 31, 2017:

Revenues:	
Sales Tax Revenue	<u>\$ 25,934</u>
 Total Revenues	 25,934
Expenditures:	
Interest and other fiscal charges	6,467
Amortization of deferred outflows	<u>2,052</u>
 Total Expenditures	 <u>8,519</u>
Other financing sources	
Bond proceeds	743,735
Premium on bonds	<u>33,917</u>
 Total other financing sources	 <u>777,652</u>
 Net change in fund balances	 795,067
Fund balances—Beginning of period	<u>-</u>
Fund balances—End of period	<u>\$795,067</u>

DSF revenues were entirely composed of Sales Tax Revenues. Expenditures were composed of interest and other fiscal charges and amortization of the deferred outflows related to the issuance of the 2017 Bonds.

The following summarizes the GF assets, liabilities and fund balances as of December 31, 2017:

Assets:	
Sales tax receivable	<u>\$151,060</u>
 Total assets	 <u>151,060</u>
Liabilities:	
Accounts payable	<u>150,820</u>
 Total liabilities	 <u>150,820</u>
Fund balances:	
Unassigned	<u>240</u>
 Total fund balances	 <u>240</u>
Total liabilities and fund balances	<u>\$151,060</u>

The GF assets at December 31, 2017 totaled approximately \$151.1 million. They were composed entirely of Sales Tax Revenues receivable from the State. Liabilities were composed primarily of residual Sales Tax Revenues not needed for operations or debt service and payable to the City.

The following summarizes the STSC's DSF assets, liabilities, and fund balances as of December 31, 2017:

Assets:	
Cash	\$ 325
Sales Tax Receivable and Other Assets	<u>26,034</u>
 Total assets	 26,359
 Deferred outflows	 <u>769,064</u>
 Total assets and deferred outflows	 <u>795,423</u>
Liabilities:	
Accounts payable	<u>356</u>
 Total liabilities	 <u>356</u>
Fund balances:	
Restricted for debt service	26,004
Nonspendable	<u>769,063</u>
 Total fund balances	 <u>795,067</u>
 Total liabilities and fund balances	 <u>\$795,423</u>

At December 31, 2017, the STSC's DSF assets consisted of cash equivalents restricted for payment of cost of issuance related to the 2017 Bonds and Sales Tax Revenues receivable restricted for debt service payments. The Sales Tax Revenues receivable restricted for debt service at year-end reflects the amount of bond interest due on July 1 of the following fiscal year. The deferred outflows of resources represent the unamortized portion of the 2017 Bonds proceeds sold by the Corporation to the City in exchange for the Sales Tax Revenue. The deferred outflows will be amortized over the life of the 2017 Bonds.

At December 31, 2017, the STSC had credit ratings for its Sales Tax Securitization Bonds with three of the major rating agencies as follows:

<b>Fitch</b>	<b>Kroll</b>	<b>Standard &amp; Poor's</b>
AAA	AAA	AA

This financial report is designed to provide a general overview of the STSC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to the Sales Tax Securitization Corporation, 55 E Monroe Street, Suite 3800, Chicago, Illinois 60603.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**STATEMENT OF NET POSITION**  
**AS OF DECEMBER 31, 2017**  
**(Amounts in thousand)**

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ASSETS:	
Unrestricted cash	\$ 325
Sales tax receivable	176,994
Accounts receivable	<u>100</u>
Total assets	177,419
Deferred outflows	<u>769,064</u>
Total assets and deferred outflows	<u>946,483</u>
LIABILITIES:	
Accounts payable	366
Sales tax residual payable to the City	150,810
Bonds payable:	
Portion due after one year	<u>773,932</u>
Total liabilities	<u>925,108</u>
NET POSITION:	
Restricted for debt service	21,135
Unrestricted	<u>240</u>
TOTAL NET POSITION	<u>\$ 21,375</u>

See accompanying notes to basic financial statements.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**STATEMENT OF ACTIVITIES**  
**FOR THE PERIOD FROM OCTOBER 17, 2017 (DATE OF INCEPTION)**  
**TO DECEMBER 31, 2017**  
**(Amounts in thousand)**

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REVENUES:	
Local sales tax revenue	\$ 76,234
State Sales tax revenue	<u>100,760</u>
Total revenues	<u>176,994</u>
EXPENSES:	
Payment to city	150,810
Amortization of deferred outflow	2,052
Interest and other fiscal charges	2,747
General and administrative	<u>10</u>
Total expenses	<u>155,619</u>
CHANGE IN NET POSITION	21,375
NET POSITION—Beginning of period	<u>-</u>
NET POSITION—End of period	<u>\$ 21,375</u>

See accompanying notes to basic financial statements.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**GOVERNMENTAL FUNDS BALANCE SHEET**  
**AS OF DECEMBER 31, 2017**  
**(Amounts in thousand)**

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	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Unrestricted cash	\$ -	\$ 325	\$ 325
Sales tax receivable	151,060	25,934	176,994
Accounts receivable	<u>-</u>	<u>100</u>	<u>100</u>
Total assets	151,060	26,359	177,419
Deferred outflows	<u>-</u>	<u>769,064</u>	<u>769,064</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 151,060</u></b>	<b><u>\$ 795,423</u></b>	<b><u>\$ 946,483</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable	\$ 10	\$ 356	\$ 366
Sales tax residual payable to City	<u>150,810</u>	<u>-</u>	<u>150,810</u>
Total liabilities	<u>150,820</u>	<u>356</u>	<u>151,176</u>
<b>FUND BALANCE:</b>			
Restricted for debt service	-	26,004	26,004
Nonspendable		769,063	769,063
Unassigned	<u>240</u>	<u>-</u>	<u>240</u>
Total fund balance	<u>240</u>	<u>795,067</u>	<u>795,307</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 151,060</u></b>	<b><u>\$ 795,423</u></b>	<b><u>\$ 946,483</u></b>

See accompanying notes to basic financial statements.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2017  
(Amounts in thousand)**

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Total fund balances—governmental funds	\$795,307
Amounts reported in the statement of net position are different because:	
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statement of net position, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(30,197)
Some liabilities are not due and payable from currently available financial resources at year end and are therefore not reported in the governmental fund financial statements, but are reported in the statement of net position. Those liabilities consist of bonds payable.	<u>(743,735)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 21,375</u>

See accompanying notes to basic financial statements.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE PERIOD FROM OCTOBER 17, 2017 (DATE OF INCEPTION)  
TO DECEMBER 31, 2017  
(Amounts in thousand)**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Fund</b>
<b>REVENUES:</b>			
Local sales tax revenue	\$ 65,013	\$ 11,221	\$ 76,234
State sales tax revenue	<u>86,047</u>	<u>14,713</u>	<u>100,760</u>
Total revenues	<u>151,060</u>	<u>25,934</u>	<u>176,994</u>
<b>EXPENDITURES:</b>			
Interest and other fiscal charges	-	6,467	6,467
General and administrative	10	-	10
Payments to City	150,810	-	150,810
Amortization of deferred outflow	<u>-</u>	<u>2,052</u>	<u>2,052</u>
Total expenditures	<u>150,820</u>	<u>8,519</u>	<u>159,339</u>
<b>OTHER FINANCING SOURCES:</b>			
Bond proceeds	-	743,735	743,735
Premium on bonds	<u>-</u>	<u>33,917</u>	<u>33,917</u>
Total other financing sources	<u>-</u>	<u>777,652</u>	<u>777,652</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>240</b>	<b>795,067</b>	<b>795,307</b>
<b>FUND BALANCE—Beginning of period</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE—End of period</b>	<u>\$ 240</u>	<u>\$795,067</u>	<u>\$795,307</u>

See accompanying notes to the basic financial statements.

**SALES TAX SECURITIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE PERIOD FROM OCTOBER 17, 2017 (DATE OF INCEPTION)  
TO DECEMBER 31, 2017  
(Amounts in thousand)**

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Net change in fund balances—total governmental funds	\$ 795,307
Amounts reported in the statement of activities are different because: Bond proceeds provide current financial resources to governmental funds, but bonds issued increase long-term liabilities in the statement of net position.	(743,735)
Governmental funds report bond premiums as other financing sources. However, in the statement of activities, premiums are amortized over the life of the debt.	<u>(30,197)</u>
CHANGE IN NET POSITION—GOVERNMENTAL ACTIVITIES	<u>\$ 21,375</u>

See accompanying notes to the basic financial statements.



**SALES TAX SECURIZATION CORPORATION**  
**(A Component Unit of the City of Chicago, Illinois)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017, AND FOR THE PERIOD FROM OCTOBER 17, 2017 (DATE OF**  
**INCEPTION) TO DECEMBER 31, 2017**  
**(Amounts in thousands, except as noted)**

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**1. ORGANIZATION**

The Corporation is a special purpose, not-for-profit corporation incorporated under the provisions of the General Not For Profit Corporation Act of 1986 of the State of Illinois (805 ILCS 105), as amended, and organized in accordance with an ordinance adopted by the City Council (the "City Council") of the City of Chicago (the "City") on October 11, 2017. The Corporation was organized for the limited purpose of purchasing the Sales Tax Revenue from the City and issuing bonds, notes, or other obligations for the benefit of the City. The Corporation is a non-stock corporation, has no members, and is governed by a board of directors (the "Board"). Except as described in the following sentence, the Board has five voting directors, all of whom are officials of the City. The Corporation's Bylaws require the vote of an additional "independent director" as a condition to taking certain actions. The independent director would be appointed by the Mayor of the City prior to any such actions.

The names of the Corporation's current directors and officers, and their principal occupations, are set out below. The Chief Financial Officer of the City also serves as Chair of the Board.

The current directors of the Corporation are:

<b>Name</b>	<b>Title of Principal Occupation</b>
Carole L. Brown	Chief Financial Officer of the City
Samantha Fields	Budget Director of the City
Erin Keane	Comptroller of the City
Edward M. Burke	Chair of the Committee on Finance of the City Council
Carrie M. Austin	Chair of the Committee on Budget and Government Operations of the City Council

The current officers of the Corporation are:

<b>Name</b>	<b>Office</b>	<b>Title of Principal Occupation</b>
Carole L. Brown	President	Chief Financial Officer of the City
Kelly Flannery	Secretary-Treasurer	Deputy Comptroller of the City

The Corporation has no other officers and has no employees. The Corporation and the City have entered into a services agreement pursuant to which the City provides administrative and support services to the Corporation for a fee. The STSC provides benefits exclusively to the City, and as a result, is presented as a blended component unit of the City.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Government-Wide and Fund Financial Statements**—The government-wide financial statements of STSC, which include the statement of net position and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GAAP as prescribed by the GASB. The government-wide financial statements are prepared 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.

The STSC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are considered 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 to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which is recognized when due.

The STSC uses two governmental funds for reporting its activities: a debt service fund ("DSF"), and a general fund ("GF"). The DSF is used to account for the accumulation of resources for payment of principal and interest on debt and the GF is used to account for all financial resources and activities not accounted for in the DSF, which are STSC's administrative and operating expenditures. Revenues are recognized within the DSF for payment of principal and interest on debt due in the following fiscal year and the residual is then recognized within the GF.

Fund balances of the governmental funds are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned. Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained for debt service or redemption in accordance with STSC's Master Trust Indenture, dated December 1, 2017, as supplemented (the "Indenture") are classified as restricted on the statement of net position and the governmental funds balance sheet.

The Board constitutes the STSC's highest level of decision-making authority. If and when resolutions are adopted by the Board that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of the STSC who is duly authorized under the Indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same, or another duly authorized officer, or by the Board, is taken which removes or changes the assignment. Resources that are not constrained are reported as unassigned in the governmental funds balance sheets and unrestricted in the statement of net position.

When both restricted and unrestricted resources are available for use for a specific purpose, it is the STSC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is the STSC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

**Long-Term Obligations**—Bond premiums are capitalized and amortized over the life of the related debt using the effective interest method in the government-wide financial statements. The amounts of unamortized bond premium at December 31, 2017 were \$30.2 million, which were net of accumulated amortization of \$3.7 million.

Bond issuance costs are recognized as an expense/expenditure in the period incurred on both government-wide and governmental funds financial statements.

The governmental funds financial statements recognize bond premiums and discounts during the period of the related bond issuance. The face amount of debt issued is reported as another financing source, as is the premium on debt issued. Principal payments are reported as expenditures in the period made.

Interest expense is recognized as it is incurred on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when due in the governmental funds financial statements.

**Sale Agreement**—Pursuant to a sale agreement authorized by Division 13 of Article 8 of the Illinois Municipal Code, in 2017 the STSC entered into an Assignment, Purchase and Sale Agreement ("Sale Agreement") with the City under which the City sold to the STSC its right, title and interest in and to certain sales tax revenues collected by the State of Illinois (the "Sales Tax Revenues"). The Sales Tax Revenues consist of (a) revenues resulting from collection of three separate taxes (collectively, the "Home Rule Sales Tax Revenues") imposed by the City pursuant to its home rule powers and authority granted by State of Illinois statute; and (b) revenues resulting from the collection of four separate taxes (collectively, the "Local Share Sales Tax Revenues") imposed by the State of Illinois. In exchange for selling its right, title and interest in the Sales Tax Revenues, the City received a residual certificate which represents the City's ownership interest in excess Sales Tax Revenues to be received by the STSC to pay debt service requirements of any outstanding obligations and administrative costs during the term of the Sale Agreement. The City received the payment of proceeds from the Sales Tax Revenue bonds in the amount of \$771.1 million which was recorded as a deferred outflow of resources. The Sale Agreement is effective until there are no secured obligations outstanding for the STSC.

**Deferred outflow**—Represents bond proceeds paid to the City for the right, title and interest in the Sales Tax Revenues. The deferred outflow is amortized on a straight-line basis over the life of the related bond issuance.

**Use of Estimates**—The preparation of the basic financial statements in accordance with GAAP requires the STSC's management to make estimates and assumptions in determining the reported amounts of assets, deferred inflows of resources, liabilities, and deferred outflows of resources as of the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **3. BONDS PAYABLE**

In connection with the City's sale of the Sales Tax Revenue to the STSC, the STSC issued the 2017 Bonds on December 14, 2017. The bonds have interest rates ranging from 2.596% to 5.0% and maturity dates from January 1, 2020 to January 1, 2043. The bonds are secured by a pledge of the Sales Tax Revenues.

The net proceeds of \$777.7 million were used to advance refund all of the City's outstanding Sales Tax Revenue Bonds (\$614.9 million) and to refund all or a portion of certain outstanding General Obligation bonds (\$170.3 million).

A summary of changes in outstanding bonds during the period ended December 31, 2017 is as follows:

	<b>Period Ended December 31, 2017</b>			
	<b>Balance October 17, 2017</b>	<b>Additions</b>	<b>Reductions</b>	
Series 2017A	\$ -	\$172,065	\$ -	\$ 172,065
Series 2017B		400,630		400,630
Series 2017C	<u>-</u>	<u>171,040</u>	<u>-</u>	<u>171,040</u>
Total before premium	<u>-</u>	<u>743,735</u>	<u>-</u>	<u>743,735</u>
Premium	<u>-</u>	<u>33,917</u>	<u>3,720</u>	<u>30,197</u>
Total bonds payable and premium	<u>\$ -</u>	<u>\$777,652</u>	<u>\$3,720</u>	<u>\$ 773,932</u>
Due within one year				<u>\$ -</u>

Debt service requirements, including principal and interest, at December 31, 2017, are as follows:

<b>Year Ended December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ -	\$ 29,451	\$ 29,451
2019	3,000	28,123	31,123
2020	3,150	27,973	31,123
2021	27,045	27,816	54,861
2022	33,705	26,752	60,457
2023 to 2027	189,305	112,984	302,289
2028 to 2032	163,925	74,278	238,203
2033 to 2037	147,630	47,819	195,449
2038 to 2042	<u>175,975</u>	<u>19,380</u>	<u>195,355</u>
Totals	<u>\$743,735</u>	<u>\$394,576</u>	<u>\$ 1,138,311</u>

#### 4. SUBSEQUENT EVENTS

In February 2018, the STSC issued its \$680.3 million Sales Tax Securitization Bonds, consisting of \$376.3 million Series 2018A (the "Series 2018A Bonds") and \$303.9 million Taxable Series 2018B Bonds (the "Taxable Series 2018B Bonds"). The Series 2018A bonds were issued at interest rates between 4.00% and 5.00% and mandatory sinking funds or maturity dates between January 1, 2031 and January 1, 2048. The Taxable Series 2018B bonds were issued at an interest rate of 3.82% and with a maturity date of January 1,

2048. Proceeds will be used to provide funds for the City to refund certain of the City's outstanding general obligation bonds and to pay costs of issuance.

\* \* \* \* \*

**STATISTICAL SECTION (UNAUDITED)**

**TABLE 1****Annual Sales Tax Revenues (Unaudited)**

The following table shows the historical annual Sales Tax Revenues on a cash basis from 2008 through 2017.

**Annual Sales Tax Revenues 2008-2017  
(Dollars in Thousands)**

<b>Year Ended December 31,</b>	<b>Home Rule Sales Tax Revenues<sup>(2)</sup></b>	<b>Percent Change Over Prior Year</b>	<b>Local Share Sales Tax Revenues</b>	<b>Percent Change Over Prior Year</b>	<b>Total Sales Tax Revenues</b>	<b>Percent Change Over Prior Year</b>
2008	\$ 240,710	-	\$ 280,517	- .0	\$ 521,227	-
2009	213,338	(11.4)	255,427	(8.9)	468,765	(10.1)
2010	219,295	2.8	258,666	1.3	477,961	2.0
2011	235,908	7.6	281,189	8.7	517,097	8.2
2012	251,055	6.4	295,912	5.2	546,967	5.8
2013	263,984	5.1	312,378	5.6	576,361	5.4
2014	276,192	4.6	327,379	4.8	603,571	4.7
2015	292,512	5.9	352,841	7.8	645,353	6.9
2016	295,299	1.0	363,448	3.0	658,746	2.1
2017	292,991	(0.8)	368,647	1.4	661,638	0.4

Source: City of Chicago

Shown net of all past fees and will be net of all applicable fees going forward.

**TABLE 2****Monthly Home Rule Sales Tax Revenues (Unaudited)**

The following table shows the historical monthly Home Rule Sales Tax Revenues on a cash basis from 2013 through 2017.

**Monthly Home Rule Sales Tax Revenues 2013-2017  
(Dollars in Thousands)**

<b>Month</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
January	\$ 21,471	\$ 22,336	\$ 24,223	\$ 25,571	\$ 25,379
February	20,847	21,837	23,170	23,447	24,036
March	24,175	25,150	26,741	27,727	27,607
April	18,325	17,842	19,616	19,930	20,064
May	18,409	19,075	20,043	21,338	20,301
June	21,801	22,934	24,079	24,345	24,033
July	21,613	23,198	23,867	23,015	23,935
August	23,423	24,739	25,413	25,242	25,163
September	24,172	25,051	26,724	27,256	26,535
October	22,778	23,985	25,915	25,831	25,205
November	23,999	24,455	26,876	25,842	25,206
December	<u>22,971</u>	<u>25,591</u>	<u>25,845</u>	<u>25,755</u>	<u>25,525</u>
	<u>\$263,984</u>	<u>\$276,192</u>	<u>\$292,512</u>	<u>\$295,299</u>	<u>\$292,991</u>

Source: City of Chicago



**TABLE 3****Monthly Local Share Sales Tax Revenues (Unaudited)**

The following table shows the historical monthly Local Share Sales Tax Revenues on a cash basis from 2013 through 2017.

**Monthly Local Share Sales Tax Revenues 2013- 2017  
(Dollars in Thousands)**

<b>Month</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
January	\$ 25,728	\$ 26,638	\$ 29,175	\$ 30,726	\$ 31,241
February	24,952	25,857	27,901	22,402	29,967
March	29,540	31,452	34,018	42,040	36,939
April	22,995	22,278	23,044	25,738	26,245
May	19,487	22,637	25,642	27,057	25,812
June	29,347	27,112	29,395	30,541	30,631
July	25,572	26,927	29,269	28,769	29,353
August	26,478	28,556	29,895	30,717	30,940
September	28,415	29,386	25,409	33,223	32,517
October	26,289	27,850	24,482	30,390	30,948
November	26,871	28,647	24,593	30,525	32,020
December <sup>(1)</sup>	<u>26,701</u>	<u>30,039</u>	<u>50,017</u>	<u>31,318</u>	<u>32,034</u>
	<u>\$312,375</u>	<u>\$327,379</u>	<u>\$352,841</u>	<u>\$363,448</u>	<u>\$368,647</u>

Source: City of Chicago

<sup>(1)</sup> The City's receipt of its allocable portions of the Illinois Use Tax and the Illinois Service Use Tax was delayed in September, October and November 2015, because the Illinois General Assembly did not make the appropriation required for the City to receive such revenues. The appropriation was made, and the City received the revenues which it was to have received, in December 2015.

**TABLE 4****Components of Sales Tax Revenues (Unaudited)**

The following table shows on a cash basis the components of the Sales Tax Revenues from January 1, 2013 through December 31, 2017.

**Components of Sales Tax Revenues 2013-2017  
(Dollars in Thousands)**

Tax	2013		2014		2015		2016		2017	
	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total
Home rule sales tax revenues:										
Retailers' and service occupation Use	\$ 234,359	40.7 %	\$ 242,820	40.2 %	\$ 255,134	39.5 %	\$ 257,053	39.0 %	\$ 256,238	38.7 %
	29,624	5	33,372	6	37,378	6	38,246	6	36,753	6
Local share sales tax revenues:										
Retailers' and service Occupation <sup>(1)</sup>	252,972	44	261,989	43	278,490	43	283,598	43	283,815	43
Use <sup>(2)</sup>	59,406	10	65,390	11	74,351	12	79,849	12	84,832	13
Total	\$ 576,361	100.0 %	\$ 603,571	100.0 %	\$ 645,353	100.0 %	\$ 658,746	100.0 %	\$ 661,638	100.0 %

Source: City of Chicago

(1) Includes Illinois Use Tax on titled personal property.

(2) Excludes Illinois Use Tax on titled personal property.