



Phillips, Salmi & Associates, LLC
Certified Public Accountants

**CITY OF CANTON, ILLINOIS
INCREMENTAL TAX FUNDS**

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2012

TABLE OF CONTENTS

	Page Number
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Assets, Liabilities and Fund Equity – Modified Cash Basis – Incremental Tax Funds	2
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Incremental Tax Funds	3
Notes to the Financial Statements	4
SUPPLEMENTAL INFORMATION	
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SUBSECTION (q) OF SECTION 11-74.4-3 OF THE ILLINOIS TAX INCREMENT ALLOCATION REDEVELOPMENT ACT	7



Phillips, Salmi & Associates, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Canton, Illinois

We have audited the accompanying financial statements of the Canton 1, Canton 2, and 4A Incremental Tax Funds of the City of Canton, Illinois, as of and for the year ended April 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the City of Canton, Illinois' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Incremental Tax Fund and do not purport to, and do not, present fairly the financial position of the City of Canton, Illinois, as of April 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with the modified cash basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Incremental Tax Funds of the City of Canton, Illinois, as of April 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with the modified cash basis of accounting.

We have also issued a report dated October 15, 2012 on compliance with the provisions of Subsection (q) of Section 11-74.4-3 (65 ILCS 5/11-74.4-3(q)) of the Illinois Tax Increment Allocation Redevelopment Act of the Incremental Tax Funds of the City of Canton, Illinois.

Our audit was conducted for the purpose of forming an opinion on the Incremental Tax Fund financial statements taken as a whole. The schedule of receipts and disbursements, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Phillips, Salmi & Associates, LLC

October 15, 2012

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CITY OF CANTON, ILLINOIS
STATEMENT OF ASSETS, LIABILITIES, AND FUND EQUITY
MODIFIED CASH BASIS - INCREMENTAL TAX FUNDS
APRIL 30, 2012

	<u>Canton 1</u>	<u>Canton 2</u>	<u>4A</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 2,482,030	\$ -	\$ -	\$ 2,482,030
Due from other funds	928,007	-	-	928,007
Due from other governments	1,112	-	-	1,112
	<u>\$ 3,411,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,411,149</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$ 822,839	\$ -	\$ -	\$ 822,839
Total liabilities	822,839	-	-	822,839
 Fund balances				
Restricted	2,588,310	-	-	2,588,310
	<u>\$ 3,411,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,411,149</u>

See accompanying notes.

CITY OF CANTON, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS -
INCREMENTAL TAX FUNDS
YEAR ENDED APRIL 30, 2012

	<u>Canton 1</u>	<u>Canton 2</u>	<u>4A</u>	<u>Total</u>
REVENUES				
Property taxes	\$ 507,135	\$ -	\$ 35,236	\$ 542,371
Intergovernmental	93,750	-	-	93,750
Interest	769	-	-	769
Other	58,961	-	-	58,961
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	660,615	-	35,236	695,851
EXPENDITURES				
Community development	441,273	44,437	42,870	528,580
Capital outlay	687,651	-	151,157	838,808
Debt service - Interest	120,000	-	-	120,000
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	1,248,924	44,437	194,027	1,487,388
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Excess (deficit) of revenues over expenditures	(588,309)	(44,437)	(158,791)	(791,537)
OTHER FINANCING SOURCES				
Debt proceeds	7,000,000	-	-	7,000,000
Debt refunded	(4,000,000)	-	-	(4,000,000)
Debt issuance costs	(216,055)	-	-	(216,055)
Transfers in	-	44,437	2,528	46,965
Transfers out	(128,072)	-	-	(128,072)
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	2,655,873	44,437	2,528	2,702,838
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Net change in fund balance	2,067,564	-	(156,263)	1,911,301
FUND BALANCES, BEGINNING OF YEAR	<hr/>			
	520,746	-	156,263	677,009
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FUND BALANCES, END OF YEAR	<hr/>			
	\$ 2,588,310	\$ -	\$ -	\$ 2,588,310
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See accompanying notes.

**CITY OF CANTON, ILLINOIS
INCREMENTAL TAX FUNDS
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Incremental Tax Funds conform to the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

A. Nature of Operations

The City of Canton, Illinois provides a broad range of services to citizens, including general government, public safety, garbage, streets and the water and sewer utilities.

B. Financial Reporting Entity

Accounting principles require the financial reporting entity to include the primary government and other organizations for which the primary government is financially accountable (component units). Financial accountability includes the primary government's ability to appoint a voting majority of the organization's governing body, the ability to impose will on an organization, and if an organization is fiscally dependent on the primary government. Based on this guidance, management has determined there are no component units required to be included in the City's financial statements.

The accompanying financial statements do not include the governmental fund types, enterprise funds, internal service funds or trust and agency funds which should be included in order to conform with the modified cash basis of accounting.

C. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accompanying financial statements present only the Incremental Tax Funds and are not intended to present fairly the financial position and results of operations of the City of Canton, Illinois in conformity with the modified cash basis of accounting.

The Incremental Tax Funds of the City of Canton, Illinois are accounted for in the Special Revenue Funds under the governmental fund types in the financial statements of the City. The Incremental Tax Funds were established to account for tax increment allocation financing which finances certain redevelopment project areas. Ad valorem taxes levied upon taxable real property in such redevelopment project areas, to the extent the taxes exceed the amount of taxes which would have been levied upon the redevelopment project areas as determined just prior to the commencement of the project, are allocated to these funds.

D. Basis of Presentation and Accounting

Basis of Presentation

These financial statements include the Incremental Tax Funds, separate accounting entities of the City. The statements as presented in the table of contents are representative of the fund financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The City maintains its accounting records for the Incremental Tax Funds on the modified cash basis of accounting. Revenue is recognized in the accounting period collected. Expenditures are generally recognized in the accounting period in which paid. General fixed asset purchases are recorded as expenditures of the purchasing fund at the time the expenditure is paid.

E. Property Taxes

Property taxes are levied in December and attach as an enforceable lien on the property as of January 1. The property taxes receivable represents the 2011 tax levy which is due and collectible in June and September 2012. Since these taxes are not due and collectible until June, they are not considered available as of April 30 and are, therefore, shown as deferred revenue in the Incremental Tax Fund and will be recognized as revenue only as they become available.

F. Accounting Estimates

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

NOTE 2. CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposit policy provides that all deposits be guaranteed by the U.S. government, insured by the Federal Deposit Insurance Corporation (FDIC), or fully collateralized with securities held by the City or its agent in the City's name or by its counterparty's trust department or agent in the City's name.

Cash and cash equivalents at April 30, 2012 consisted of deposits with a local financial institution and the Illinois Funds Money Market Fund. The Illinois Funds have a credit rating of AAAM, by an independent rating agency, indicating a strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and liquidity risks.

The monies invested in the Illinois Funds by the individual participants are pooled together and invested in U.S. Treasury bills and notes backed by the full faith and credit of the U.S. Treasury. In addition, monies are invested in fully collateralized time deposits in Illinois financial institutions, in collateralized repurchase agreements, and in treasury mutual funds that invest in U.S. Treasury obligations and collateralized repurchase agreements.

NOTE 3. FUND BALANCE

The TIF fund balances are classified as "Restricted" due to limitations on the use of those funds. TIF funds may be used for costs associated with the development of property within the TIF, allowing blighted, declining, and underperforming areas to again become viable.

SUPPLEMENTAL INFORMATION



Phillips, Salmi & Associates, LLC

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
SUBSECTION (q) OF SECTION 11-74.4-3 OF THE ILLINOIS
TAX INCREMENT ALLOCATION REDEVELOPMENT ACT**

Honorable Mayor and Members of the City Council
City of Canton, Illinois

We have audited the statement of assets, liabilities, and fund equity – modified cash basis of the Canton 1, Canton 2, and 4A Incremental Tax Funds of the **City of Canton, Illinois** as of April 30, 2012, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and have issued our report thereon dated October 15, 2012. The financial statements present only the Incremental Tax Funds and are not intended to present fairly the financial position and results of operations of the City of Canton, Illinois and the results of its operations in conformity with the modified cash basis of accounting.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Canton, Illinois' compliance with the provisions of Subsection (q) of Section 11-74.4-3 (65 ILCS 5/11-74.4-3(q)) of the Illinois Tax Increment Allocation Redevelopment Act (Illinois Public Act 85-1142) as it relates to the eligibility of expenditures for costs incurred incidental to the implementation of the City of Canton, Illinois, Tax Increment Redevelopment Project Areas and noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. Compliance with laws, regulations, contracts, and grants applicable to the City of Canton, Illinois is the responsibility of City of Canton, Illinois' management. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance with Subsection (q) of Section 11-74.4-3 (65 ILCS 5/11-74.4-3(q)) of the Illinois Tax Increment Allocation Redevelopment Act.

This report is intended solely for the information and use of management, State of Illinois Department of Revenue, and to taxing districts overlapping the Canton 1, Canton 2, and 4A Tax Increment Redevelopment Project Areas administered by the City of Canton, Illinois and is not intended to be and should not be used by anyone other than these specified parties.

Phillips, Salmi & Associates, LLC

October 15, 2012