



Phillips, Salmi & Associates, LLC
Certified Public Accountants

**CITY OF CANTON, ILLINOIS
INCREMENTAL TAX FUNDS
FINANCIAL STATEMENTS
YEAR ENDED APRIL 30, 2014**

TABLE OF CONTENTS

	Page Number
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Assets, Liabilities and Fund Equity – Modified Cash Basis – Incremental Tax Funds	3
Statements of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Incremental Tax Funds	4
Notes to the Financial Statements	5
SUPPLEMENTAL INFORMATION	
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SUBSECTION (q) OF SECTION 11-74.4-3 OF THE ILLINOIS TAX INCREMENT ALLOCATION REDEVELOPMENT ACT	8



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 and Canton 2 Incremental Tax Funds of the City of Canton, Illinois, as of and for the year ended April 30, 2014, 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 the modified cash basis of accounting; 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.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Canton 1 and Canton 2 Incremental Tax Funds of the City of Canton, Illinois, as of April 30, 2014, and the changes in financial position for the year then ended in conformity with the modified cash basis of accounting.

Emphasis of Matter

As described in Note 1, the financial statements present only the Incremental Tax Funds and do not purport to, and do not, present fairly the financial position of the City of Canton, Illinois as of April 30, 2014, 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.

Report on Other Legal and Regulatory Requirements

We have also issued a report dated November 25, 2014 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.

Phillips, Salmi & Associates, LLC

November 25, 2014

CITY OF CANTON, ILLINOIS
STATEMENTS OF ASSETS, LIABILITIES, AND FUND EQUITY
MODIFIED CASH BASIS - INCREMENTAL TAX FUNDS
APRIL 30, 2014

	<u>Canton 1</u>	<u>Canton 2</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,427,650	\$ 1,843	\$ 1,429,493
Due from other funds	295,000	-	295,000
Due from other governments	1,112	-	1,112
	\$ 1,723,762	\$ 1,843	\$ 1,725,605
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 170,679	841,520	\$ 1,012,199
Total liabilities	170,679	841,520	1,012,199
Fund balances			
Restricted	1,553,083	-	1,553,083
Unassigned	-	(839,677)	(839,677)
Total fund balance (deficit)	1,553,083	(839,677)	713,406
	\$ 1,723,762	\$ 1,843	\$ 1,725,605

See accompanying notes.

CITY OF CANTON, ILLINOIS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS -
INCREMENTAL TAX FUNDS
YEAR ENDED APRIL 30, 2014

	<u>Canton 1</u>	<u>Canton 2</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 778,721	\$ 85,214	\$ 863,935
Interest	2,868	60	2,928
	781,589	85,274	866,863
EXPENDITURES			
Community development	654,659	870,721	1,525,380
Capital outlay	376,782	18,164	394,946
Debt service - Interest	280,619	-	280,619
Debt service - Repayment	100,000	-	100,000
	1,412,060	888,885	2,300,945
Excess (deficit) of revenues over expenditures	(630,471)	(803,611)	(1,434,082)
OTHER FINANCING SOURCES			
Transfers out	(127,119)	-	(127,119)
	(127,119)	-	(127,119)
Net change in fund balance	(757,590)	(803,611)	(1,561,201)
FUND BALANCES, BEGINNING OF YEAR	2,310,673	(36,066)	2,274,607
FUND BALANCES (DEFICIT), END OF YEAR	\$ 1,553,083	\$ (839,677)	\$ 713,406

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 City adopted its 2012 tax levy on December 18, 2012. The property taxes received represents the 2012 tax levy which was due and collectible in June and September 2013. Revenue in the Incremental Tax Funds is recognized only as it is received.

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, 2014 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. Canton 2 Incremental Tax Fund has a deficit fund balance as of April 30, 2014 of \$839,677.

SUPPLEMENTAL INFORMATION

**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 statements of assets, liabilities, and fund equity – modified cash basis of the Canton 1 and Canton 2 Incremental Tax Funds of the **City of Canton, Illinois** as of April 30, 2014, and the related statements of revenues, expenditures, and changes in fund balances for the year then ended, and have issued our report thereon dated November 25, 2014. 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 and Canton 2 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

November 25, 2014