

CITY OF PROSPECT HEIGHTS, IL
PALATINE/MILWAUKEE
TAX INCREMENT FINANCING FUND

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT AND
COMPLIANCE REPORT

AS OF AND FOR THE YEAR ENDED APRIL 30, 2012

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
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AS OF AND FOR THE YEAR APRIL 30, 2012

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Baker Tilly Virchow Krause, LLP
1301 W 22nd St, Ste 400
Oak Brook, IL 60523-3389
tel 630 990 3131
fax 630 990 0039
bakertilly.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
City of Prospect Heights
8 North Elmhurst Road
Prospect Heights, IL 60070

We have audited the accompanying financial statements of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund as of and for the year ended April 30, 2012, as listed in the table of contents. These financial statements are the responsibility of management of the City of Prospect Heights. Our responsibility is to express an opinion 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 amounts and disclosures in the financial statements. An audit also 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 discussed in Note 1, the financial statements present only the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund and do not purport to, and do not, present fairly, the financial position of the City of Prospect Heights, as of April 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund as of April 30, 2012 and its changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provision of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective, May 1, 2011.

The City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. Our opinion on the financial statements is not affected by this missing information.

We have also issued a report dated October 17, 2012, on our consideration of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund's compliance with laws, regulations, contracts and grants.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 17, 2012



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fax 630 990 0039
bakertilly.com

INDEPENDENT AUDITORS' COMPLIANCE REPORT

The Honorable Mayor and Members of the City Council
City of Prospect Heights
8 North Elmhurst Road
Prospect Heights, IL 60070

We have audited the financial statements of the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund as of and for the year ended April 30, 2012 and have issued our report dated October 17, 2012. The financial statements are the responsibility of the City of Prospect Heights' management. Our responsibility is to express an opinion on the financial statements based upon our audit.

Our audit was made 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also 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.

Compliance with laws, regulations, contracts and grants applicable to the City of Prospect Heights Palatine/Milwaukee Tax Increment Financing District Fund is the responsibility of the City of Prospect Heights' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the City of Prospect Heights' compliance with provisions in Subsection (q) of Section 11-74.4-3 of Public Act 85-1142, "An Act in Relation to Tax Increment Financing." However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the City of Prospect Heights complied, in all material respects, with Subsection (q) of Section 11-74.4-3 of Public Act 85-1142.

This report is intended solely for the information and use of the City Council, management, the State of Illinois, and others within the City and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 17, 2012

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
BALANCE SHEET
AS OF APRIL 30, 2012

Assets

Cash and investments	\$ 2,042,318
Receivables (net)	
Property taxes	<u>337,316</u>
 Total assets	 <u>\$ 2,379,634</u>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 571
Deferred revenues	333,369
Due to other funds	<u>27,641</u>
 Total liabilities	 <u>361,581</u>

Fund Balance

Restricted for debt service	<u>2,018,053</u>
 Total fund balance	 <u>2,018,053</u>
 Total liabilities and fund balance	 <u>\$ 2,379,634</u>

See Notes to Financial Statements

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED APRIL 30, 2012

Revenues:	
Property taxes	\$ 1,043,719
Investment income	<u>698</u>
Total revenues	<u>1,044,417</u>
Expenditures:	
General Government	
Professional services	108,725
Service charges and fees	850
Other contractual services	12,449
General supplies	<u>110</u>
Total General Government	<u>122,134</u>
Debt Service	
Principal	310,000
Interest	<u>127,825</u>
Total Debt Service	<u>437,825</u>
Total expenditures	<u>559,959</u>
Excess (deficiency) of revenues over (under) expenditures	<u>484,458</u>
<u>OTHER FINANCING SOURCES (USES)</u>	
Transfers out	<u>(68,838)</u>
Total Other Financing Sources (Uses)	<u>(68,838)</u>
Net change in fund balance	<u>415,620</u>
Fund balance, beginning of year	<u>1,602,433</u>
Fund balance, end of year	<u>\$ 2,018,053</u>

See Notes to Financial Statements

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Palatine/Milwaukee Tax Increment Financing District Fund (the Fund) of the City of Prospect Heights, Illinois (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With the measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. The City recognizes property taxes when they become both measurable and available and for the period intended to finance. Expenditures are recorded when the related fund liability is incurred. The revenues susceptible to accrual are property taxes and investment income.

Reporting Entity

The Palatine/Milwaukee Tax Increment Financing District Fund is a fund of the City of Prospect Heights, Illinois. These accompanying financial statements are limited to presenting only the individual fund and do not include any other funds of the City.

In evaluating how to define the Palatine/Milwaukee Tax Increment Financing District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The definition of a component unit is an organization for which the Palatine/Milwaukee Tax Increment Financing District is financially accountable and other organizations for which the nature and significance of their relationship with the Palatine/Milwaukee Tax Increment Financing District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2012

The Palatine/Milwaukee Tax Increment Financing District is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Palatine/Milwaukee Tax Increment Financing District. The Palatine/Milwaukee Tax Increment Financing District also may be financially accountable if an organization is fiscally dependent on the Palatine/Milwaukee Tax Increment Financing District regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government or (3) a jointly appointed board. After consideration, management has decided that there are no organizations that qualify as component units of the fund.

Fund Balance

For the year ended April 30, 2012, the City has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Equity is classified as fund balance in the financial statements and displayed in five components:

Nonspendable - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.

Restricted - Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (ordinance, resolution, motion) of the City. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the City that originally created the commitment.

Assigned - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following; 1) The City has adopted a financial policy authorizing the city administrator or finance director to assign funds for specific purposes. Any funds set aside as assigned fund balance must be reported to the city council at their next regular meeting. The governing board has the authority to remove or change the assignment of the funds with a simple majority vote. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.

Unassigned - Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED APRIL 30, 2012

NOTE 2 – CASH AND INVESTMENTS

Permitted Deposits and Investments

Illinois Statutes authorize the City to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

At April 30, 2012, the total cash and investments of the Fund were \$2,042,318. The cash and investments were comprised of deposits with financial institutions, which include amounts held in demand accounts, savings accounts and non-negotiable certificates of deposit (\$611,287) and investments in Illinois Funds (\$1,431,031).

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, the price for which the investments could be sold.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The City's investment policy seeks to ensure preservation of capital in the City's overall portfolio. Return on investment is of secondary importance to safety of principal and liquidity. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the City may collateralize its repurchase agreements using longer dated investments not to exceed thirty (30) years to maturity. Reserve funds may be invested in securities of three (3) years maturity or less, if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds. The City's policy requires the investment portfolio to be sufficiently liquid to enable the City to meet all operating requirements as they come due.

Custodial Credit Risk – Deposits

With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured with collateralization pledged by the applicable financial institution to the extent of 110% of the value of the deposit. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. At year end, the Fund did not have any deposits that were exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that the issuer of a debt security will not pay its par value upon maturity. State Statutes limit the investments in commercial paper to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The City's investment policy authorizes investments in any type of security allowed for in Illinois statutes regarding the investment of public funds. Illinois Funds are rated AAAa.

CITY OF PROSPECT HEIGHTS
PALATINE/MILWAUKEE TAX INCREMENT FINANCING FUND
 NOTES TO FINANCIAL STATEMENTS
 AS OF AND FOR THE YEAR ENDED APRIL 30, 2012

NOTE 3 – RECEIVABLES - TAXES

Property taxes for levy year 2012 attaches as an enforceable lien on January 1, 2012, on property values assessed as of the same date. Taxes are levied by December following the lien date (by passage of a Tax Levy Ordinance). The 2012 tax levy has not been recorded as a receivable as of April 30, 2012, as the tax has not yet been levied by the City, and therefore, the levy is not measurable at April 30, 2012.

Tax bills for levy year 2011 are prepared by the county and issued on or about February 1, 2012 and July 1, 2012, and are payable in two installments, on or about March 1, 2012 and August 1, 2012 or within 30 days of the tax bills being issued.

The county collects such taxes and remits them periodically. The 2011 property tax levy is recognized as a receivable and deferral in fiscal 2012, net of amounts already collected and of an allowance for uncollectible. As the taxes become available to finance current expenditures, they are recognized as revenues. At April 30, 2012, the property taxes receivable and deferred tax revenue consisted of the estimated amount collectible from the 2011 levy less amounts received prior to April 30, 2012.

NOTE 4 – INTERFUND PAYABLES

As of April 30, 2012, the Fund had an amount due to the City's General Fund in the amount of \$27,641. The balance 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. The interfund payable is expected to be repaid within one year.

NOTE 5 – LONG-TERM DEBT

Tax Increment Financing Bonds

Tax increment financing bonds are payable from incremental taxes derived from a separately created tax increment financing district.

Tax Increment Financing Bonds at April 30, 2012, consists of the following:

<i>Tax Increment Financing Notes</i>	<i>Date of Issue</i>	<i>Final Maturity</i>	<i>Interest Rates</i>	<i>Original Indebtedness</i>	<i>Balance April 30, 2012</i>
Palatine/Milwaukee TIF Notes	6/1/2004	12/1/2017	3.5% - 4.9%	\$ 5,225,000	\$ 2,440,000

Annual debt service requirements to maturity for RPA bonds are as follows:

	<i>Principal</i>	<i>Interest</i>
2013	\$ 330,000	\$ 114,185
2014	345,000	99,665
2015	400,000	84,485
2016	420,000	66,885
2017	445,000	46,305
2018	500,000	24,500
Total	\$ 2,440,000	\$ 436,025