

CITY OF STERLING, ILLINOIS

ANNUAL FINANCIAL REPORT

April 30, 2017

CITY OF STERLING, ILLINOIS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Sterling, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the City'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 audit. We did not audit the financial statements of the CGH Medical Center, a discretely presented component unit, which represents 99.9 percent of the assets, net position and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the CGH Medical Center, is based solely on the report of the other auditors. 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of April 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended 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, schedule of funding progress, schedule of change in employer's net pension liability and related ratios, schedule of employer contributions, schedule of investment returns and budgetary comparison information on pages 4 through 13 and 92 through 110 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor funds, pension trust funds and component unit financial statements on pages 111 through 116 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor funds, pension trust funds and component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining nonmajor funds, pension trust funds and component unit financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wipfli LLP

Rockford, Illinois
September 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This discussion and analysis of the City of Sterling's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended April 30, 2017. It should be read in conjunction with the City's financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19,783,171 (net position).
- The City's total net position increased by \$2,223,711 from the prior year. The net position of the City's business-type activities increased by \$266,377, or 2.1%, and the net position of the City's governmental activities increased by \$1,957,334, or 38.0%.
- In the City's governmental activities, revenues increased \$3,102,976, or 17.8%, and expenses decreased \$3,448,187, or 15.6%.
- In the City's business-type activities, revenues increased \$135,742, or 4.3%, and expenses increased \$1,228, or .04%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,204,030, or 58.1% of total General Fund expenditures.

Overview of the Financial Statements

The City's basic financial statements consist of four parts: the Management's Discussion and Analysis (this section), the Independent Auditor's Report, the Basic Financial Statements, and the Required Supplementary Information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general

government, public safety, public works and transportation, community development, and culture and recreation. The business-type activities of the City include sewer and solid waste operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate medical center for which the City is financially accountable. The Foreign Fire Insurance Board is also a legally separate entity, which is required by state statute to be included with the City's audit. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Fund, 2012 CGH Medical Center Board Fund, CBD Tax Increment Allocation Fund, CBD East Tax Increment Allocation Fund, Lincolnway-Lynn Tax Increment Allocation Fund and Rock River Tax Increment Allocation Fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in these financial statements.

The City adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each major fund to demonstrate compliance with the budget.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and solid waste

operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer operations and solid waste operations, both of which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, these financial statements also present certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

Financial Analysis of the City as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,783,171 at the close of the most recent fiscal year. This analysis focuses on the net position and changes in net position of the City's governmental and business-type activities, as summarized in the following tables.

The largest portion of the City's net position (110.0%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net Position
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2016 - FY 2017</u>
Current and other assets	\$ 42.4	\$ 43.4	\$ 4.2	\$ 4.8	\$ 46.6	\$ 48.2	-3.3%
Capital assets	24.0	24.2	9.2	8.4	33.2	32.6	1.8%
Total assets	<u>\$ 66.4</u>	<u>\$ 67.6</u>	<u>\$ 13.4</u>	<u>\$ 13.2</u>	<u>\$ 79.8</u>	<u>\$ 80.8</u>	-1.2%
Deferred outflows	<u>\$ 7.4</u>	<u>\$ 9.0</u>	<u>\$ 0.3</u>	<u>\$ 0.4</u>	<u>\$ 7.7</u>	<u>\$ 9.4</u>	-18.1%
Long-term liabilities outstanding	\$ 29.4	\$ 32.9	\$ 0.6	\$ 0.8	\$ 30.0	\$ 33.7	-11.0%
Other liabilities	30.4	31.8	0.4	0.4	30.8	32.2	-4.3%
Total liabilities	<u>\$ 59.8</u>	<u>\$ 64.7</u>	<u>\$ 1.0</u>	<u>\$ 1.2</u>	<u>\$ 60.8</u>	<u>\$ 65.9</u>	-7.7%
Deferred inflows	<u>\$ 6.9</u>	<u>\$ 6.7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.9</u>	<u>\$ 6.7</u>	3.0%
Net position:							
Invested in capital assets, net of debt	\$ 13.1	\$ 12.3	\$ 8.6	\$ 7.7	\$ 21.7	\$ 20.0	8.5%
Restricted	6.6	5.7	-	-	6.6	5.7	15.8%
Unrestricted	(12.6)	(12.8)	4.1	4.7	(8.5)	(8.1)	4.9%
Total net position	<u>\$ 7.1</u>	<u>\$ 5.2</u>	<u>\$ 12.7</u>	<u>\$ 12.4</u>	<u>\$ 19.8</u>	<u>\$ 17.6</u>	12.5%

An additional portion of the City's net position (33.4%) represents resources that are subject to external restrictions on how they may be used. There was an increase of \$897,648 in restricted net position reported in connection with the City's governmental funds. A large portion of this increase is due to expenses being under budget in the Capital Fund.

The remaining balance of *unrestricted net position* (\$12,628,631), or -177.7% of total net position) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$138,823 in unrestricted net position reported in connection with the City's governmental funds. This increase in unrestricted net position is mainly due to the implementation of a utility tax by the City during fiscal year 2017.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position except for unrestricted net position for governmental activities.

The City's net position increased by \$2,223,711 during the current fiscal year. This increase is mainly due to the implementation of a utility tax and the receipt of grant money for both the IGIG Grant and the Mud to Parks Grant in the fiscal year ended April 30, 2017.

Condensed Statement of Activities
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2016 - FY 2017
Revenues:							
Program revenues:							
Charges for services	\$ 2.2	\$ 2.0	\$ 3.2	\$ 3.1	\$ 5.4	\$ 5.1	5.9%
Operating grants and contributions	0.6	0.6	-	-	0.6	0.6	0.0%
Capital grants and contributions	2.0	0.6	-	-	2.0	0.6	233.3%
General revenues:							
Property taxes	5.6	4.8	-	-	5.6	4.8	16.7%
Other taxes	8.4	7.4	-	-	8.4	7.4	13.5%
Other	1.8	1.9	0.1	0.1	1.9	2.0	-5.0%
Total revenues	<u>20.6</u>	<u>17.3</u>	<u>3.3</u>	<u>3.2</u>	<u>23.9</u>	<u>20.5</u>	16.6%
Program expenses:							
General government	3.6	2.9	-	-	3.6	2.9	24.1%
Public safety	5.9	9.4	-	-	5.9	9.4	-37.2%
Public works and transportation	2.4	2.4	-	-	2.4	2.4	0.0%
Community development	2.0	3.1	-	-	2.0	3.1	-35.5%
Culture and recreation	0.6	0.6	-	-	0.6	0.6	0.0%
Other	3.1	2.4	-	-	3.1	2.4	29.2%
Interest on long-term debt	1.1	1.2	-	-	1.1	1.2	-8.3%
Sewer	-	-	1.9	2.0	1.9	2.0	-5.0%
Solid waste	-	-	1.1	1.1	1.1	1.1	0.0%
Total expenses	<u>18.7</u>	<u>22.0</u>	<u>3.0</u>	<u>3.1</u>	<u>21.7</u>	<u>25.1</u>	-13.5%
Change in net position	1.9	(4.7)	0.3	0.1	2.2	(4.6)	100.0%
Net position, beginning of year, as restated	<u>5.2</u>	<u>9.9</u>	<u>12.4</u>	<u>12.3</u>	<u>17.6</u>	<u>22.2</u>	-20.7%
Net position, end of year	<u>\$ 7.1</u>	<u>\$ 5.2</u>	<u>\$ 12.7</u>	<u>\$ 12.4</u>	<u>\$ 19.8</u>	<u>\$ 17.6</u>	12.5%

Governmental activities increased the City's net position by \$1,957,334. Key elements of this decrease are as follows:

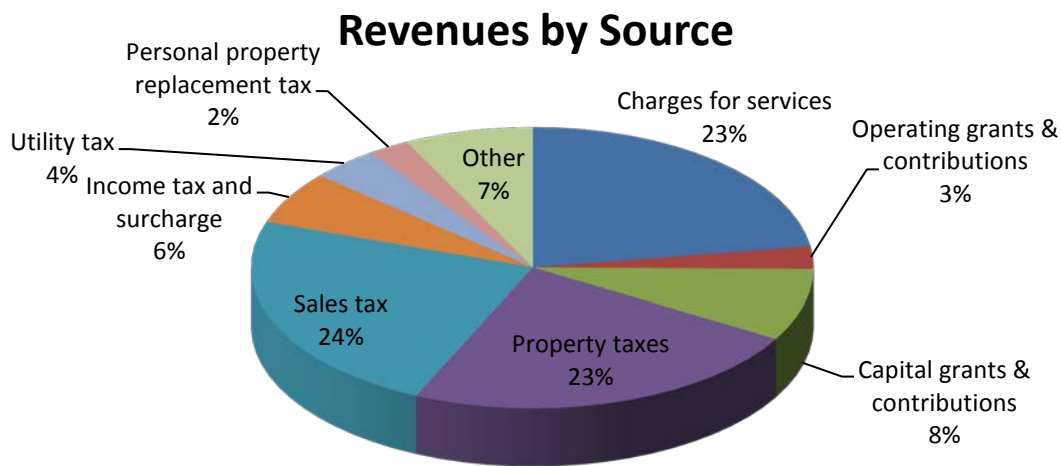
- Governmental revenues increased by approximately 17.8%. This increase was mainly attributable to the following:
 - The implementation of a utility tax on both gas and electrical service during fiscal year 2017. This tax increased revenues by \$924,834.
 - The receipt of grant revenue for both the IGIG Grant (\$1,219,066 increase from prior year) and the Mud to Parks Grant (\$487,461 increase from prior year).

- Governmental expenses decreased by approximately 15.6%. This decrease is comprised of a decrease in expenditures for community development of \$1,071,169, or 35.0%, related to decreased spending for the IGIG Grant, Mud to Parks Grant, and the Rock River Tax Increment Allocation Fund.

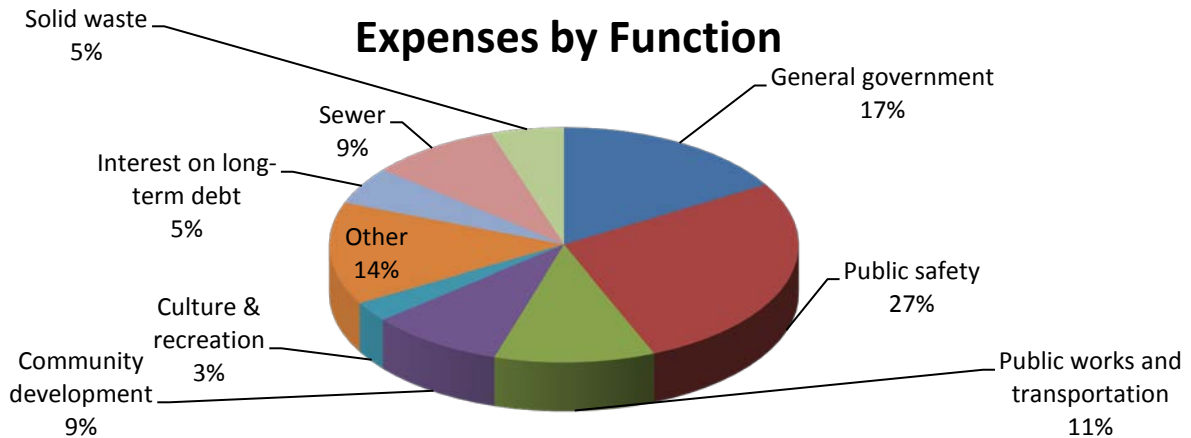
Business-type activities increased the City’s net position by \$266,377. Key elements of this increase are as follows:

- Business-type revenues increased by approximately 4.3%. This increase is mainly related to 1) a 9.3% increase in the minimum basic sewer user charge, and 2) a 9.9% increase in the basic sewer user rate.
- Business-type expenses increased by approximately .04%, which is due to the increase in operating expenses of the Solid Waste Fund of 3.0%.

The following charts present the percentages of revenues by source and the percentages of expenses by function for the City.



The City receives approximately 70% of its total revenues from sales tax, charges for services, and property taxes. The remaining 30% of revenues are derived from income and other taxes, operating and capital grants and contributions, and other revenues.



During the current fiscal year, 55% of the City’s expenses were for public safety, public works and transportation, and general government. Expenses for sewer operations, solid waste, community development, interest expense and other activities were between 5% and 14% of total costs, while culture and recreation made up the bottom 3% of all costs.

Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$9,922,064, an increase of \$2,818,827 in comparison with the prior year. A large component of this increase is from grant money from the State of Illinois for the Mud to Parks Grant and the IGIG Grant. Approximately 32% of the total governmental fund balances amount (\$3,149,114) constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is nonspendable, restricted, or committed.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,204,030, while the total fund balance reached \$6,425,072. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 58.1% of total General Fund expenditures, while total fund balance represents 60.1% of that same amount.

The fund balance of the City’s General Fund increased by \$789,231 during the current fiscal year. The fund balance was budgeted to increase by \$416,755. Therefore, the General Fund’s fund balance

increase was \$372,476 more than expected. A majority of this increase was related to two items: state replacement tax received was \$100,126 more than budgeted and non-departmental expenditures were \$120,033 less than expected.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer Fund at the end of the year amounted to \$3,748,498, and those for the Solid Waste Fund amounted to \$293,834. The total growth in net assets for both funds was \$219,972 and \$46,405, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$362,738 (or 3.2% decrease in appropriations) and can be briefly summarized as follows:

- \$29,188 in decreases in general government activities (mainly due to decreases in salaries)
- \$295,599 in decreases in public safety (mainly due to decreases in salaries for police services)
- \$100,175 in decreases for public works and transportation (mainly due to decreases in salaries and fuel costs for the street department)
- \$76,245 in decreases in community development activities (mainly due to decreases in other improvements)
- \$91,376 in increases for other expenditures (mainly due to increases in IT improvements and miscellaneous charges)

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2017, amounts to \$33,251,395 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was approximately 1.9% (a .5% decrease for governmental activities and an 8.8% increase for business-type activities). See Note 3 for capital asset information.

Major capital asset events during the current fiscal year included the following:

- The 6th Avenue (E. 2nd St. to E. 3rd St.) and 8th Avenue (E. 2nd St. to south end at UPRR) project was completed during the fiscal year. Expenditures for the project during the fiscal year ending April 30, 2017 totaled \$348,010. Total expenditures since the beginning of the project were \$537,031.
- The 6th Avenue Sanitary Sewer Project was completed during the fiscal year. Expenditures for the project during the fiscal year ending April 30, 2017 totaled \$710,796. Total expenditures since the beginning of the project were \$851,367.
- The 6th Avenue Reconstruction Project was completed during the fiscal year ended April 30, 2017 at a cost of \$236,932.

Capital Assets at Year End
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2016 - FY 2017
Land	\$ 1.3	\$ 1.2	\$ 0.1	\$ 0.1	\$ 1.4	\$ 1.3	7.7%
Construction in progress	1.0	1.1	-	0.3	1.0	1.4	-28.6%
Buildings and equipment	13.2	13.1	7.9	7.8	21.1	20.9	1.0%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	<u>27.7</u>	<u>26.7</u>	<u>12.2</u>	<u>10.9</u>	<u>39.9</u>	<u>37.6</u>	6.1%
Subtotal	44.0	42.9	20.2	19.1	64.2	62.0	3.5%
Less: accumulated depreciation	<u>20.0</u>	<u>18.7</u>	<u>11.0</u>	<u>10.6</u>	<u>31.0</u>	<u>29.3</u>	5.8%
Total	<u>\$ 24.0</u>	<u>\$ 24.2</u>	<u>\$ 9.2</u>	<u>\$ 8.5</u>	<u>\$ 33.2</u>	<u>\$ 32.7</u>	1.5%

Long-term debt. At the end of the current fiscal year, the City had \$29,959,500 in bonds and notes outstanding, which is a decrease of \$3,723,951, or 11.1%, from the prior year. Of the total long-term debt, \$18,100,00, or 60.4%, is debt issued on behalf of CGH Medical Center, a component unit of the City. This debt is paid by the City, but reimbursed by the Medical Center each year. See Notes 5 and 6 for long-term debt.

Outstanding Debt at Year End
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2016 - FY 2017
Bonds payable	\$ 29.2	\$ 32.7	\$ -	\$ -	\$ 29.2	\$ 32.7	-10.7%
Loans payable	-	-	0.6	0.7	0.6	0.7	-14.3%
Intergovernmental agreement	0.1	0.1	-	-	0.1	0.1	0.0%
Redevelopment agreements	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>	0.0%
Total	<u>\$ 29.4</u>	<u>\$ 32.9</u>	<u>\$ 0.6</u>	<u>\$ 0.7</u>	<u>\$ 30.0</u>	<u>\$ 33.6</u>	-10.7%

The City maintains an “A+” rating from Standard & Poor’s for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8.625% of its total assessed valuation. The current debt limit for the City is \$14,308,019. The City has no outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The City's Council and staff considered many factors while preparing the fiscal year 2018 budget. One concern taken into consideration while preparing the budget is the status of the economy, which takes into account the following:

- The weakening of the economy and declines in the market resulting in lower investment returns and restricting access to capital.
- Variable fuel and utility costs and rising insurance and pension costs.
- Plant and equipment needs for replacement of aged equipment.

Amounts available for appropriation in the General Fund budget for the 2018 fiscal year are \$12,377,843, an increase of 3.1% from the final fiscal year 2017 budget of \$12,003,741. A 7.4% increase in property taxes and a 4.9% increase in sales tax are expected to cause this increase. The City will use these increases in revenue to finance programs that are currently offered and the expected impact of inflation on program costs.

Budgeted expenditures in the General Fund are expected to increase \$508,755, or approximately 4.3%, to \$12,330,470. The largest increment of this increase is as follows:

- Pension contributions are expected to increase by \$236,231, or 46.4% of the budgeted expected increase.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase by \$47,373 by the close of fiscal year 2018.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 212 3rd Avenue, Sterling, IL 61081.

BASIC FINANCIAL STATEMENTS

CITY OF STERLING, ILLINOIS
STATEMENT OF NET POSITION
April 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash	\$ 852,303	\$ 70,140	\$ 922,443	\$ 45,224,149
Restricted cash	-	101,703	101,703	-
Investments	9,792,263	2,493,233	12,285,496	51,250,014
Taxes receivable	5,830,128	-	5,830,128	-
Intergovernmental receivables	2,138,658	9,681	2,148,339	-
Accounts receivable (net of allowance for uncollectibles)	6,327,084	723,654	7,050,738	32,823,505
Notes receivable (net of allowance for uncollectibles)	30,101	-	30,101	-
Interest receivable	48,627	21,766	70,393	241,072
Other receivables	-	-	-	1,328,651
Estimated third-party payor settlements receivable	-	-	-	1,546,705
Internal balances	(795,237)	795,237	-	-
Due from beneficial interest	-	-	-	266,204
Inventories	62,480	7,329	69,809	3,854,363
Prepaid expenses	-	-	-	2,588,847
Capital assets:				
Land and construction in progress	2,299,544	190,245	2,489,789	-
Infrastructure, net	13,263,368	-	13,263,368	-
Other capital assets, net	8,484,289	9,013,949	17,498,238	68,785,245
Assets limited as to use	-	-	-	5,800,091
Due from CGH Medical Center - bond issue	18,100,000	-	18,100,000	-
Other assets	-	-	-	968,899
Beneficial interest in affiliates	-	-	-	4,811,140
Total assets	<u>66,433,608</u>	<u>13,426,937</u>	<u>79,860,545</u>	<u>219,488,885</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	7,372,731	285,751	7,658,482	8,951,274
Total assets and deferred outflows of resources	<u>73,806,339</u>	<u>13,712,688</u>	<u>87,519,027</u>	<u>228,440,159</u>
LIABILITIES				
Accounts payable	553,588	160,391	713,979	4,082,119
Claims payable	221,614	-	221,614	-
Accrued malpractice	-	-	-	1,331,597
Accrued payroll	92,844	7,882	100,726	11,093,679
Accrued interest	53,318	3,660	56,978	-
Deposits	20,692	15,997	36,689	-
Estimated third-party payor settlements payable	-	-	-	9,711,257
Other current liabilities	-	-	-	3,838,830
Accrued compensated absences	324,440	41,304	365,744	-
Other postemployment benefits obligation	2,167,987	-	2,167,987	-
Net pension liability	26,934,072	233,185	27,167,257	-
Long-term liabilities:				
Due within one year	3,251,656	182,289	3,433,945	2,750,000
Due in more than one year	26,139,562	385,992	26,525,554	75,443,432
Total liabilities	<u>59,759,773</u>	<u>1,030,700</u>	<u>60,790,473</u>	<u>108,250,914</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	1,059,856	3,743	1,063,599	3,267,884
Deferred inflows - property taxes, licenses, and grants	5,881,784	-	5,881,784	-
Total deferred inflows of resources	<u>6,941,640</u>	<u>3,743</u>	<u>6,945,383</u>	<u>3,267,884</u>
NET POSITION				
Net investment in capital assets	13,132,891	8,635,913	21,768,804	49,684,630
Restricted for:				
Special revenue	3,375,150	-	3,375,150	-
Debt service	35,173	-	35,173	-
Health development	-	-	-	5,800,091
Capital projects	3,190,343	-	3,190,343	-
Unrestricted	(12,628,631)	4,042,332	(8,586,299)	61,436,640
Total net position	<u>\$ 7,104,926</u>	<u>\$ 12,678,245</u>	<u>\$ 19,783,171</u>	<u>\$ 116,921,361</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS
April 30, 2017

	General Fund	Capital Fund	2012 CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	CBD East Tax Increment Allocation Fund	Lincolnway- Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash	\$ 2,047	\$ -	\$ 44	\$ 26,087	\$ -	\$ -	\$ -	\$ 550,485	\$ 578,663
Investments	3,840,848	1,735,380	-	340,000	-	-	1,123,801	1,500,103	8,540,132
Receivables								-	
Taxes	3,770,131	-	-	326,366	1,572	142,753	604,435	984,871	5,830,128
Intergovernmental	1,497,000	191,655	-	20,000	-	-	-	430,003	2,138,658
Accounts receivable	34,100	1,170	-	-	-	-	7,872	3,227	46,369
Notes	-	-	-	-	-	-	-	30,101	30,101
Interest	8,539	4,522	-	17	-	-	-	26,493	39,571
Inventory	62,480	-	-	-	-	-	-	-	62,480
Due from other funds	1,294,990	1,386,360	-	108,986	-	-	-	861,343	3,651,679
TOTAL ASSETS	\$ 10,510,135	\$ 3,319,087	\$ 44	\$ 821,456	\$ 1,572	\$ 142,753	\$ 1,736,108	\$ 4,386,626	\$ 20,917,781
LIABILITIES									
Accounts payable	\$ 203,663	\$ 114,694	\$ -	\$ 18,793	\$ -	\$ -	\$ 124,409	\$ 91,922	\$ 553,481
Accrued payroll	86,803	-	-	-	-	-	-	6,041	92,844
Deposits	3,460	-	-	-	-	-	-	17,232	20,692
Due to other funds	-	-	-	-	34,204	91,227	3,350,775	970,710	4,446,916
Total liabilities	293,926	114,694	-	18,793	34,204	91,227	3,475,184	1,085,905	5,113,933
DEFERRED INFLOWS OF RESOURCES									
Deferred inflows - property taxes	3,791,137	27,679	-	326,366	1,572	142,753	604,435	987,842	5,881,784
FUND EQUITY									
Fund balance									
Nonspendable	62,480	-	-	-	-	-	-	30,101	92,581
Restricted	158,562	-	44	476,297	-	-	-	2,868,752	3,503,655
Committed	-	3,176,714	-	-	-	-	-	-	3,176,714
Unassigned	6,204,030	-	-	-	(34,204)	(91,227)	(2,343,511)	(585,974)	3,149,114
Total fund equity	6,425,072	3,176,714	44	476,297	(34,204)	(91,227)	(2,343,511)	2,312,879	9,922,064
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,510,135	\$ 3,319,087	\$ 44	\$ 821,456	\$ 1,572	\$ 142,753	\$ 1,736,108	\$ 4,386,626	\$ 20,917,781

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
Year Ended April 30, 2017

Total governmental fund balances	\$ 9,922,064
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$19,951,167	24,047,201
Other long-term assets are not due and receivable in the current period and therefore are not reported in the funds:	
Advance of bond proceeds to developer	4,802,108
Advance for theater renovation loan	1,250,522
Advance of bond proceeds to CGH Medical Center	18,100,000
Deferred outflows of resources related to pensions that do not relate to current financial resources and are not reported in the governmental funds	7,372,731
Deferred inflows of resources related to pensions that do not relate to current financial resources and are not reported in the governmental funds	(1,059,856)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General obligations bonds payable	(26,840,000)
Tax increment bonds payable	(2,370,000)
Redevelopment agreements payable	(103,000)
Notes payable	(78,219)
Other postemployment benefit obligation	(2,167,987)
Compensated absences	(324,440)
Net pension liability	(26,934,072)
Accrued interest was recognized for governmental activities, but is not due and payable in the current period and therefore, is not reported as a liability in the governmental funds.	(53,318)
An internal service fund is used by management to charge the cost of group health to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position:	
Assets	\$ 1,762,913
Liabilities	<u>(221,721)</u> <u>1,541,192</u>
Total net position - governmental activities	<u>\$ 7,104,926</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS
Year Ended April 30, 2017

	General Fund	Capital Fund	2012 CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	CBD East Tax Increment Allocation Fund	Lincolnway- Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
REVENUES									
Taxes	\$ 8,622,774	\$ 1,223,582	\$ -	\$ 455,612	\$ -	\$ 172,813	\$ 607,877	\$ 983,941	\$ 12,066,599
Intergovernmental	2,219,723	-	-	-	-	-	-	2,390,668	4,610,391
Licenses and permits	730,591	-	-	-	-	-	-	-	730,591
Fines and penalties	187,431	-	-	-	-	-	-	-	187,431
Charges for services	83,494	24,795	-	-	-	-	-	263,418	371,707
Investment income	14,312	14,374	-	244	-	27	271	14,744	43,972
Donations	64,882	23,981	-	-	-	-	-	163,188	252,051
Other	246,702	-	3,397,206	-	-	474,788	7,872	135,724	4,262,292
Total revenues	<u>12,169,909</u>	<u>1,286,732</u>	<u>3,397,206</u>	<u>455,856</u>	<u>-</u>	<u>647,628</u>	<u>616,020</u>	<u>3,951,683</u>	<u>22,525,034</u>
EXPENDITURES									
Current									
General government	436,665	186	-	-	-	-	-	664,039	1,100,890
Public safety	4,267,706	-	-	-	-	-	-	10,111	4,277,817
Public works and transportation	1,165,742	148,687	-	-	-	-	-	209,725	1,524,154
Community development	305,037	51,450	-	59,556	7,318	173,299	422,618	958,977	1,978,255
Culture and recreation	-	-	-	-	-	-	-	613,427	613,427
Other	4,338,853	-	318	-	-	-	-	-	4,339,171
Debt service									
Principal	-	-	2,695,000	25,000	-	225,000	280,000	321,656	3,546,656
Interest	-	-	701,888	-	-	249,788	16,684	157,735	1,126,095
Capital outlay	171,012	886,943	-	313,814	-	-	-	74,092	1,445,861
Total expenditures	<u>10,685,015</u>	<u>1,087,266</u>	<u>3,397,206</u>	<u>398,370</u>	<u>7,318</u>	<u>648,087</u>	<u>719,302</u>	<u>3,009,762</u>	<u>19,952,326</u>
Excess (deficiency) of revenues over expenditures	<u>1,484,894</u>	<u>199,466</u>	<u>-</u>	<u>57,486</u>	<u>(7,318)</u>	<u>(459)</u>	<u>(103,282)</u>	<u>941,921</u>	<u>2,572,708</u>
OTHER FINANCING SOURCES (USES)									
Sale of property	15,337	-	-	-	-	-	-	200,782	216,119
Operating transfers in	30,000	316,000	-	-	-	-	-	425,000	771,000
Operating transfers out	(741,000)	-	-	-	-	-	-	-	(741,000)
Total other financing sources (uses)	<u>(695,663)</u>	<u>316,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>625,782</u>	<u>246,119</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>789,231</u>	<u>515,466</u>	<u>-</u>	<u>57,486</u>	<u>(7,318)</u>	<u>(459)</u>	<u>(103,282)</u>	<u>1,567,703</u>	<u>2,818,827</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR									
	<u>5,635,841</u>	<u>2,661,248</u>	<u>44</u>	<u>418,811</u>	<u>(26,886)</u>	<u>(90,768)</u>	<u>(2,240,229)</u>	<u>745,176</u>	<u>7,103,237</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 6,425,072</u>	<u>\$ 3,176,714</u>	<u>\$ 44</u>	<u>\$ 476,297</u>	<u>\$ (34,204)</u>	<u>\$ (91,227)</u>	<u>\$ (2,343,511)</u>	<u>\$ 2,312,879</u>	<u>\$ 9,922,064</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGES IN NET POSITION
TO THE STATEMENT OF ACTIVITIES
Year Ended April 30, 2017

Net change in fund balances - total governmental funds \$ 2,818,827

Amounts reported for governmental activities in the statement of net assets are different because:

Recording of long-term receivables creates an expenditure to governmental funds in the period issued, but issuing long-term receivables increases long-term assets in the Statement of Net Position. Receipt of payment on the receivable is a revenue in the governmental funds, but the repayment reduces the long-term asset in the Statement of Net Position.

Payments (249,795)

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current year.

31,995

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations and disposals) is to increase/decrease net position:

Loss on the sale of capital assets (149,302)

Issuance of long-term debt provides current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Issuances	\$ -	
Payments	3,546,656	
Payment of CGH Medical Center bonds	(2,695,000)	
Change in compensated absences	(12,788)	
Change in net pension liability	965,878	
Change in deferred outflows of resources related to pensions	(2,699,652)	
Accrued interest	<u>3,186</u>	(891,720)

Internal service funds are used by management to account for the costs of insurance. The net revenue of the internal service fund is reported with governmental activities.

Change in Net Position 397,329

Change in net position of governmental activities \$ 1,957,334

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
April 30, 2017

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ -	\$ 70,140	\$ 70,140	\$ 273,640
Restricted cash	101,703	-	101,703	-
Investments	2,430,232	63,001	2,493,233	1,252,131
Intergovernmental receivable	-	9,681	9,681	-
Accounts receivable	476,383	247,271	723,654	228,086
Accrued interest	21,759	7	21,766	9,056
Due from other funds	795,237	-	795,237	-
Inventory	5,865	1,464	7,329	-
Total current assets	<u>3,831,179</u>	<u>391,564</u>	<u>4,222,743</u>	<u>1,762,913</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	7,882,603	18,981	7,901,584	-
Inceptors	1,650,728	-	1,650,728	-
Storm sewers	6,690,181	-	6,690,181	-
Separation work	3,801,298	-	3,801,298	-
Construction in progress	41,647	-	41,647	-
	<u>20,215,055</u>	<u>18,981</u>	<u>20,234,036</u>	<u>-</u>
Accumulated depreciation	<u>11,010,861</u>	<u>18,981</u>	<u>11,029,842</u>	<u>-</u>
Total capital assets (net of accumulated depreciation)	<u>9,204,194</u>	<u>-</u>	<u>9,204,194</u>	<u>-</u>
Total assets	<u>13,035,373</u>	<u>391,564</u>	<u>13,426,937</u>	<u>1,762,913</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	<u>285,751</u>	<u>-</u>	<u>285,751</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>13,321,124</u>	<u>391,564</u>	<u>13,712,688</u>	<u>1,762,913</u>
LIABILITIES				
Current liabilities				
Accounts payable	67,770	92,621	160,391	107
Claims payable	-	-	-	221,614
Accrued payroll	7,016	866	7,882	-
Overpayments	15,947	50	15,997	-
Accrued vacation	37,111	4,193	41,304	-
Accrued interest	3,660	-	3,660	-
Current portion of notes payable	<u>182,289</u>	<u>-</u>	<u>182,289</u>	<u>-</u>
Total current liabilities	<u>313,793</u>	<u>97,730</u>	<u>411,523</u>	<u>221,721</u>
Noncurrent liabilities				
Net pension liability	233,185	-	233,185	-
Notes payable (net of current portion)	<u>385,992</u>	<u>-</u>	<u>385,992</u>	<u>-</u>
Total noncurrent liabilities	<u>619,177</u>	<u>-</u>	<u>619,177</u>	<u>-</u>
Total liabilities	<u>932,970</u>	<u>97,730</u>	<u>1,030,700</u>	<u>221,721</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>3,743</u>	<u>-</u>	<u>3,743</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,635,913	-	8,635,913	-
Unrestricted	<u>3,748,498</u>	<u>293,834</u>	<u>4,042,332</u>	<u>1,541,192</u>
Total net position	<u>\$ 12,384,411</u>	<u>\$ 293,834</u>	<u>\$ 12,678,245</u>	<u>\$ 1,541,192</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND TYPES
Year Ended April 30, 2017

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities -	Governmental Activities - Internal Service Fund
OPERATING REVENUE				
Sewer use and hook-up fees	\$ 2,157,997	\$ -	\$ 2,157,997	\$ -
Solid waste service fees	-	1,071,392	1,071,392	-
Employer contributions	-	-	-	1,735,535
Employee contributions	-	-	-	578,512
Other revenue	5,604	-	5,604	-
Total operating revenue	<u>2,163,601</u>	<u>1,071,392</u>	<u>3,234,993</u>	<u>2,314,047</u>
OPERATING EXPENSES				
Administration	-	-	-	304,297
Life insurance premiums	-	-	-	8,482
Waste water treatment plant	645,814	-	645,814	-
Solid waste disposal	-	1,084,917	1,084,917	-
Maintenance	19,330	-	19,330	-
Billing and collection	260,024	-	260,024	-
Non-departmental	603,235	-	603,235	-
Benefit payments	-	-	-	1,607,124
Depreciation	395,523	3,796	399,319	-
Total operating expenses	<u>1,923,926</u>	<u>1,088,713</u>	<u>3,012,639</u>	<u>1,919,903</u>
Operating income (loss)	<u>239,675</u>	<u>(17,321)</u>	<u>222,354</u>	<u>394,144</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	62,963	62,963	-
Interest income	87,804	169	87,973	21,959
Net change in fair value of investments	(59,967)	-	(59,967)	(18,774)
Interest expense	(17,540)	-	(17,540)	-
Total nonoperating revenues (expenses)	<u>10,297</u>	<u>63,132</u>	<u>73,429</u>	<u>3,185</u>
Net income before other financing sources (uses)	<u>249,972</u>	<u>45,811</u>	<u>295,783</u>	<u>397,329</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	-	594	594	-
Operating transfers out	(30,000)	-	(30,000)	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>594</u>	<u>(29,406)</u>	<u>-</u>
Change in net position	219,972	46,405	266,377	397,329
NET POSITION, BEGINNING OF YEAR	<u>12,164,439</u>	<u>247,429</u>	<u>12,411,868</u>	<u>1,143,863</u>
NET POSITION, END OF YEAR	<u>\$ 12,384,411</u>	<u>\$ 293,834</u>	<u>\$ 12,678,245</u>	<u>\$ 1,541,192</u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended April 30, 2017

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from/(payments to) interfund services provided	\$ (430,215)	\$ -	\$ (430,215)	\$ 2,314,047
Receipts from customers	2,105,414	1,059,544	3,164,958	-
Payments to employees	(515,494)	(51,140)	(566,634)	-
Payments to suppliers	(1,004,827)	(1,030,099)	(2,034,926)	26
Payments for premiums, claims, and related services	75,906	-	75,906	(2,008,657)
Net cash provided by (used in) operating activities	<u>230,784</u>	<u>(21,695)</u>	<u>209,089</u>	<u>305,416</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State replacement tax	-	62,677	62,677	-
Operating transfers to other funds	(30,000)	-	(30,000)	-
Net cash provided by (used in) non-capital financing activities	<u>(30,000)</u>	<u>62,677</u>	<u>32,677</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on notes payable	(177,295)	-	(177,295)	-
Interest paid on notes payable	(18,476)	-	(18,476)	-
Capital assets acquired	(1,140,679)	-	(1,140,679)	-
Proceeds from the sale of capital assets	-	594	594	-
Net cash provided by (used in) capital financing activities	<u>(1,336,450)</u>	<u>594</u>	<u>(1,335,856)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(7,284)	(7,284)	(672,178)
Proceeds from the sale of investments	915,413	-	915,413	152,780
Interest received	97,578	162	97,740	20,347
Net cash provided by (used in) investing activities	<u>1,012,991</u>	<u>(7,122)</u>	<u>1,005,869</u>	<u>(499,051)</u>
NET CHANGE IN CASH	(122,675)	34,454	(88,221)	(193,635)
CASH, BEGINNING OF YEAR	224,378	35,686	260,064	467,275
CASH, END OF YEAR	\$ 101,703	\$ 70,140	\$ 171,843	\$ 273,640
RECONCILIATION OF OPERATING INCOME TO NET				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 239,675	\$ (17,321)	\$ 222,354	\$ 394,144
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	395,523	3,796	399,319	-
Effects of changes in operating assets and liabilities				
Accounts receivable	(59,986)	(11,475)	(71,461)	(225,530)
Inventory	2,873	489	3,362	-
Due from other funds	(430,215)	-	(430,215)	-
Deferred outflows related to pensions	89,270	-	89,270	-
Accounts payable	136	2,719	2,855	26
Claims payable	-	-	-	136,776
Accrued payroll	1,121	369	1,490	-
Overpayments	1,799	(373)	1,426	-
Deferred inflows related to pensions	3,743	-	3,743	-
Compensated absences	3,952	101	4,053	-
Net pension liability	(17,107)	-	(17,107)	-
	<u>\$ 230,784</u>	<u>\$ (21,695)</u>	<u>\$ 209,089</u>	<u>\$ 305,416</u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
April 30, 2017

	Pension Trust Funds	Private Purpose Trust Committee Fund	Agency Blackhawk Area Task Force Fund
ASSETS			
Cash	\$ 81,704	\$ 1,190	\$ 565,667
Accrued interest receivable	57,162	-	1
Investments, at fair value	25,581,248	-	259,760
Due from other funds	30,273	-	-
TOTAL ASSETS	25,750,387	1,190	825,428
 LIABILITIES			
Accounts payable	1,484	-	7,023
Due to other funds	30,273	-	818,405
TOTAL LIABILITIES	31,757	-	825,428
 NET POSITION	\$ 25,718,630	\$ 1,190	\$ -

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended April 30, 2017

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ADDITIONS		
Contributions		
Employer	\$ 1,995,790	\$ -
Plan members	258,567	-
Total contributions	2,254,357	-
Investment income		
Interest earned	486,827	1
Net change in fair value	1,820,426	-
Total investment income	2,307,253	1
Less: investment expense	(67,702)	-
Net investment income	2,239,551	1
Other revenue	100	-
Total other revenue	100	-
Total additions	4,494,008	1
DEDUCTIONS		
Administrative	47,664	-
Benefits	2,691,352	-
Total deductions	2,739,016	-
CHANGE IN NET POSITION	1,754,992	1
NET POSITION, BEGINNING OF YEAR	23,963,638	1,189
NET POSITION, END OF YEAR	\$ 25,718,630	\$ 1,190

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to basic financial statements.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies

REPORTING ENTITY

The City of Sterling (City) is a municipal corporation established in 1857 governed by an elected Mayor and Council. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include potential component units in the reporting entity was based upon the significance of their operational or financial relationship with the primary government.

The financial statements of the City of Sterling, Illinois have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the City (the primary government) and its component units, CGH Medical Center (Medical Center) and Foreign Fire Insurance Board.

The CGH Medical Center provides health care services to residents of the City and the surrounding communities. The Center's board is appointed by the Mayor with the consent of the City Council. The Center is included in the reporting entity since it is financially accountable, as ownership lies with the City. Separate audited financial statements of the Center are available by contacting CGH Medical Center.

The Foreign Fire Insurance Board receives funding from the Foreign Fire Insurance Tax (2%) imposed by the State of Illinois on firms that sell fire insurance in Illinois, but are not based in Illinois. The Board is included in the reporting entity due to a requirement by State Statute.

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major and aggregate nonmajor funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The government-wide financial statements report on all of the nonfiduciary activities of the primary government.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales tax, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balance, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City can selectively add funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City which accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, general long-term debt, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary and Trust Funds.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Proprietary Funds (Continued)

Enterprise Funds (Continued)

charges; or (b) where the governing body has decided that periodic determination or revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City maintains two enterprise funds, the sewer fund and solid waste fund.

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis.

The City maintains one internal service fund, the health insurance fund.

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. Fiduciary funds include the police and fire protection pension trust funds, a private purpose trust fund and an agency fund.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Reporting Major Funds

The City reports the following major funds:

General Fund - This fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Reporting Major Funds (Continued)

Capital Fund - This fund is used to account for the accumulation of resources for, and the payment of, acquisition or construction of major capital assets (other than those financed by proprietary funds).

2012 CGH Medical Center Fund - This fund is used to account for the issuance and payments on the 2012 CGH Medical Center Bonds. Financing is provided by reimbursement from CGH Medical Center.

CBD (Central Business District) Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the Central Business District. Financing is provided by incremental sales and property taxes.

CBD (Central Business District) East Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the East Central Business District. Financing is provided by property taxes.

Lincolnway-Lynn Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the Lincolnway-Lynn Redevelopment District. Financing will be provided by property taxes and reimbursements from the developer.

Rock River Tax Increment Allocation Fund - This fund is used to account for the revenues and expenditures associated with TIF activities in the Rock River Redevelopment District. Financing is provided by property taxes.

Sewer Fund - This fund is used to account for the revenues and expenditures associated with sewer service. Financing is provided by sewer user charges.

Solid Waste Fund - This fund is used to account for the revenues and expenditures associated with solid waste disposal service. Financing is provided by solid waste disposal charges.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

Reporting Major Funds (Continued)

Under the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the City may report any governmental or enterprise fund (but not internal service funds or fiduciary funds) as a major fund if the government’s officials believe the fund is “particularly important to financial statement users”. The City has chosen to include the CBD Tax Increment Allocation Fund, the CBD East Tax Increment Allocation Fund, the Lincolnway-Lynn Tax Increment Allocation Fund, and the Solid Waste Fund as major funds even though the fund calculations do not classify them as major funds. The City views these funds particularly important to financial users.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues except for property taxes are recognized when earned and expenses are recognized when incurred. Property taxes are recognized in the period for which the taxes are levied.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year end. The City has elected to take exception to this assumption for state highway maintenance revenue remitted by the State of Illinois. Due to the State being late with these payments, the City considers those amounts applicable to the current fiscal year to be available even if paid after the 60 day period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

Modified Accrual (Continued)

general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Property taxes are recorded as revenue when levied for budgetary purposes. Penalties and interest, court fees, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Intergovernmental revenue and interest income associated with the current fiscal period are considered to be susceptible to accrual, to the extent that any purpose restriction has been met for intergovernmental revenue, and so have been recognized as revenues of the current period. Sales, income, and motor fuel taxes are considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time.

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. Actual results could differ from those estimates.

BUDGETS

Annual budgets are adopted for all governmental funds using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The City prepares an appropriation ordinance and budget for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds. The appropriation ordinance represents the legal spending limits for the City. The budget is used to control those limits. The appropriation ordinance and budget was passed on April 18, 2016 and was amended on April 17, 2017. The budget lapses at the end of each fiscal year. The City does not utilize an encumbrance system.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

BUDGETS (CONTINUED)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) Prior to April 30, the City prepares an annual appropriation ordinance and budget for the fiscal year commencing May 1 of that year. The budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) Legal spending and management control for City monies is at the fund level. The City may amend the ordinance by a majority vote of all City Council members.

CASH EQUIVALENTS

For purposes of the statement of cash flows, the City considered cash equivalents to be all cash on hand and any certificates of deposit with an original maturity of three months or less. Any maturity dates over three months are presented as investments.

INVESTMENTS

State statutes authorize the government to invest in the following:

- (1) Commercial banks
- (2) Savings and loan institutions
- (3) Obligations of the U. S. Treasury and U. S. Agencies
- (4) Obligations of States and their political subdivisions
- (5) Credit union shares
- (6) Repurchase agreements
- (7) Commercial paper rated within the three highest classifications by at least two standard rating services
- (8) Illinois Public Treasurer's Investment Pool

In addition, the Police and Firefighters' Pension Trust Funds may invest in other investments including general and special accounts of life insurance companies, mutual funds, bank managed funds and equities.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans, if any, are also classified as "due from other funds" or "due to other funds" on the balance sheet. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

INVENTORIES

The cost of inventories are recorded as expenditures/expenses when consumed rather than when purchased. Inventory is valued at lower of cost or market (FIFO basis).

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more for equipment, \$20,000 or more for buildings and improvements, and \$50,000 or more for infrastructure, are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Computer equipment	5 years
Other equipment	10 years
Vehicles	7 years
Buildings	40 years
Building improvements	20 years
Road improvements (overlays, resurfacing)	10 years
Road infrastructure (restructuring)	20 years
Other infrastructure	50 years

GASB Statement No. 34 required the City to report and depreciate newly acquired infrastructure assets effective for the year ended April 30, 2004. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008 (other than proprietary funds). The City implemented the

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

CAPITAL ASSETS (CONTINUED)

general provisions of GASB Statement No. 34 in the year ended April 30, 2004 and is reporting infrastructure prospectively in accordance with the Statement.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time.

PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each year at the time the budget for the ensuing year is passed and is extended against the assessed valuation of the City on January 1 of that year. Taxes are due and payable in two installments in June and September.

Property taxes are accrued as a receivable in the period in which the City has an enforceable lien on property. However, recognition of the revenue is deferred until the property taxes are both measurable and available and in the period for which levied. Property tax revenue recorded on the City for the year ended April 30, 2017 represents installments of the 2015 property taxes which were received during 2016. The 2016 property tax levy has been deferred at April 30, 2017, as it was budgeted for fiscal year 2018.

LONG-TERM OBLIGATIONS

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

LONG-TERM OBLIGATIONS (CONTINUED)

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable, accrued compensated absences, other postemployment benefits obligation, and net pension obligations.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest and bond issuance costs are reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

FUND EQUITY/NET POSITION

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the 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, which include various local taxes that are restricted to certain specified purposes.
- c. Unrestricted net position – all other net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted/Unrestricted Net Position

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 1. Nature of Entity and Summary of Significant Accounting Policies (Continued)

FUND EQUITY/NET POSITION (CONTINUED)

Fund Statements

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable: Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Amounts constrained by the City's intent to use them for a specific purpose. The authority to assign fund balance has been delegated to the City Manager.

Unassigned: All amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of other governmental funds would also be reported as unassigned.

INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 2. Deposits and Investments

Primary Government

The City's investment policy allows them to invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. In general, the City may invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of the same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act. At year-end, the carrying amount of the City's cash and deposits was \$1,664,042 and the bank balances totaled \$1,846,914. Cash on hand was \$8,665.

At year end, the investment maturities are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	10 or more
Certificates of Deposit	\$ 2,398,692	\$ 352,854	\$ 2,020,413	\$ 25,425	\$ -
Money Market	1,701,869	1,701,869	-	-	-
U.S. Treasuries	12,139,798	1,205,418	8,384,381	2,223,716	326,283
U.S. Agencies	2,199,677	74	2,964	169,184	2,027,455
IL Treas. Investment	3,532,725	3,532,725	-	-	-
Mutual Funds	11,964,201	11,964,201	-	-	-
Stock	4,189,542	4,189,542	-	-	-
	<u>\$ 38,126,504</u>	<u>\$ 22,946,683</u>	<u>\$ 10,407,758</u>	<u>\$ 2,418,325</u>	<u>\$ 2,353,738</u>

Investments in The Illinois Funds

The State Treasurer maintains the Illinois Treasurer's Investment Pool (Pool) at cost and fair value through daily adjustment in the interest earnings. The State Treasurer also maintains the average duration of the Pool at less than 25 days. The Pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. The Pool maintains a Standard and Poor's AAAM rating. The relationship between the City and the investment agent is a direct contractual relationship and the investments are not supported by a transferable instrument that evidences ownership or creditorship. At April 30, 2017, the City had \$3,532,725 in the Pool, which approximates fair value.

All funds deposited in the Pool are classified as investments even though some could be withdrawn on a day's notice. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Illinois Public Funds Investment Act, 30 ILCS 235.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 2. Deposits and Investments (Continued)

Interest Rate Risk

The City does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements, seek reasonable income, preserve capital, maintain liquidity, and in general, avoid speculative instruments. The City's investments in the Illinois Treasurers' Investment Pool maintain a rating of AAAM by Standard and Poor's. The City's investments in bonds of the U.S. Agencies were rated AAA and Aaa by Moody's Investors Service.

Should the component unit, CGH Medical Center, or either of the pension funds, police pension and firefighters' pension, experience financial failure, the City would be responsible. CGH Medical Center is in strong financial condition and the pension funds experienced improvement in the past year. The risk at this time is moderately low.

Current accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy, as described under current accounting standards, are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or inputs other than quoted prices that are observable for the asset or liability.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 2. Deposits and Investments (Continued)

The following table presents the District's approximate fair value hierarchy for the assets measured at fair value on a recurring basis as of April 30, 2017:

	Total	Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis:				
Certificates of deposit	\$2,398,692	-	\$2,398,692	-
Money Market	1,701,869	-	1,701,869	-
U.S. Treasuries	12,139,798	\$12,139,798	-	-
U.S. Agencies	2,199,677	-	2,199,677	-
Il Treas. Investment	3,532,725	-	3,532,725	-
Mutual Funds	11,964,201	-	11,964,201	-
Stock	4,189,542	-	4,189,542	-
Total investments	\$38,126,504	\$12,139,798	\$25,986,706	-

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy follows the laws set forth in the Illinois Compiled Statutes. As of April 30, 2017 none of the City's deposits were exposed to custodial credit risk. Cash and investments are categorized in accordance with risk factors. Deposits are insured by the FDIC to \$250,000 per bank for interest bearing accounts and investments. All deposits are secured by the FDIC or by investments pledged by the bank.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issue. As of April 30, 2017, more than 5% of the City's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 15.7% of the City's total investments and is reported in the Police and Fire Pension Trust Funds.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2017, was as follows:

	<u>Balance at May 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2017</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,179,897	\$ 254,139	\$ 111,938	\$ 1,322,098
Construction in Progress	1,096,644	877,403	996,601	977,446
Total capital assets not being depreciated	<u>\$ 2,276,541</u>	<u>\$ 1,131,542</u>	<u>\$ 1,108,539</u>	<u>\$ 2,299,544</u>
Capital Assets being depreciated				
Buildings	\$ 8,099,719	\$ 91,648	\$ -	\$ 8,191,367
Equipment	4,991,321	203,665	195,690	4,999,296
Land Improvements	787,920	-	-	787,920
Infrastructure	26,704,636	1,015,605	-	27,720,241
Total capital assets being depreciated	<u>\$ 40,583,596</u>	<u>\$ 1,310,918</u>	<u>\$ 195,690</u>	<u>\$ 41,698,824</u>
Less accumulated depreciation for				
Buildings	\$ 1,189,877	\$ 192,579	\$ -	\$ 1,382,456
Equipment	3,603,494	313,711	158,326	3,758,879
Land Improvements	337,098	15,861	-	352,959
Infrastructure	13,565,160	891,713	-	14,456,873
Total accumulated depreciation	<u>\$ 18,695,629</u>	<u>\$ 1,413,864</u>	<u>\$ 158,326</u>	<u>\$ 19,951,167</u>
Total capital assets being depreciated, net	<u>\$ 21,887,967</u>	<u>\$ (102,946)</u>	<u>\$ 37,364</u>	<u>\$ 21,747,657</u>
Governmental activities capital assets, net	<u>\$ 24,164,508</u>	<u>\$ 1,028,596</u>	<u>\$ 1,145,903</u>	<u>\$ 24,047,201</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2017</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in Progress	251,492	1,054,142	1,263,987	41,647
Total capital assets not being depreciated	<u>\$ 400,090</u>	<u>\$ 1,054,142</u>	<u>\$ 1,263,987</u>	<u>\$ 190,245</u>
Capital Assets being depreciated				
Buildings and equipment	\$ 7,797,787	\$ 103,797	\$ -	\$ 7,901,584
Interceptors, mains, and pump stations	1,563,440	87,287	-	1,650,727
Storm sewers	5,530,742	1,159,439	-	6,690,181
Sewer separation work	3,801,298	-	-	3,801,298
Total capital assets being depreciated	<u>\$ 18,693,267</u>	<u>\$ 1,350,523</u>	<u>\$ -</u>	<u>\$ 20,043,790</u>
Less accumulated depreciation for				
Buildings and equipment	\$ 4,408,233	\$ 176,457	\$ -	\$ 4,584,690
Interceptors, mains, and pump stations	1,195,992	27,177	-	1,223,169
Storm sewers	2,350,377	119,913	-	2,470,290
Sewer separation work	2,675,920	75,772	-	2,751,692
Total accumulated depreciation	<u>\$ 10,630,522</u>	<u>\$ 399,319</u>	<u>\$ -</u>	<u>\$ 11,029,841</u>
Total capital assets being depreciated, net	<u>\$ 8,062,745</u>	<u>\$ 951,204</u>	<u>\$ -</u>	<u>\$ 9,013,949</u>
Business-type activities capital assets, net	<u>\$ 8,462,835</u>	<u>\$ 2,005,346</u>	<u>\$ 1,263,987</u>	<u>\$ 9,204,194</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 3. Capital Assets (Continued)

Depreciation expense was charged as direct expense to programs of the City as follows:

Governmental activities:	
General government	\$ 268,640
Public safety	149,986
Public works and transport.	867,200
Community Development	17,286
Culture and recreation	30,990
Other	79,762
Total depreciation expense	<u>\$ 1,413,864</u>
Business-type activities:	
Sewer	\$ 395,523
Solid waste	3,796
Total depreciation expense	<u>\$ 399,319</u>

Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City is insured for property, general liability, workers compensation, and other risks except for employee health.

The City is self-insured for employee health care, which is accounted for in an internal service fund. The City purchases specific and excess insurance to limit its exposure to loss, the specific coverage is \$80,000 per employee and \$2,334,963 in the aggregate. Each participating fund and component unit makes payments to the self-insurance fund. Such payments are displayed on the financial statements as revenues and expenditures/expenses (quasi-external transfers). The City has accrued a liability for claims incurred and reported as well as an estimate of claims incurred but not reported. A reconciliation of the claims liability is as follows:

Claims payable, April 30, 2016	\$ 84,838
Claims incurred	1,607,124
Claims paid	(1,470,348)
Claims payable, April 30, 2017	<u>\$ 221,614</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2017 are summarized as follows:

	Balance at April 30, 2016	Issued	Retired	Balance at April 30, 2017	Due within 1 year
Governmental activities:					
Bonds payable	\$ 32,685,000	\$ -	\$ 3,475,000	\$ 29,210,000	\$ 3,180,000
Redevelopment agreements	128,000	-	25,000	103,000	25,000
Intergovernmental agrmts	124,875	-	46,656	78,219	46,656
Compensated absences	311,652	12,788	-	324,440	324,440
	<u>\$ 33,249,527</u>	<u>\$ 12,788</u>	<u>\$ 3,546,656</u>	<u>\$ 29,715,659</u>	<u>\$ 3,576,096</u>
Business-type activities:					
Notes payable	\$ 745,576	\$ -	\$ 177,295	\$ 568,281	\$ 182,289
Compensated absences	37,251	4,053	-	41,304	41,304
	<u>\$ 782,827</u>	<u>\$ 4,053</u>	<u>\$ 177,295</u>	<u>\$ 609,585</u>	<u>\$ 223,593</u>

Governmental Activities

Bonds Payable

\$1,535,000 General Obligation Refunding Bonds (Alternate Revenue Source) dated September 15, 2005 due in annual installments of \$105,000 to \$160,000 due on March 1 of each year with interest at 2.95% to 3.75% due March 1 and September 1 each year through March 1, 2017. The bonds were paid off during the fiscal year ended April 30, 2017.

Ordinance 2005-09-29 was passed by the City Council for issuance of Series 2005 General Obligation Refunding Bonds (Alternate Revenue Source) in an amount of \$1,535,000. The ordinance authorizing the bond issue imposed certain conditions on the City as follows:

Pledged Motor Fuel Tax Account with pledged motor fuel taxes deposited until an amount is obtained for payment of the next interest and principal requirement.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Ordinance 2003-01-11 was passed by the City Council for issuance of Series 2003 Tax Increment Revenue Bonds in an amount not to exceed \$4,300,000.

During the fiscal year ended April 30, 2003, the City issued \$4,245,000 of Tax Increment Revenue Bonds, Series 2003 for the Rock River Redevelopment Project.

These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on December 1 each year. Interest is at 3.80% and also paid on December 1 each year.

Payments are due as follows:

Year Ending	Principal	Interest
<u>April 30</u>		
2018	\$ 310,000	\$ 90,060
2019	340,000	78,280
2020	375,000	65,360
2021	410,000	51,110
2022	445,000	35,530
2023	490,000	18,620
	<u>\$ 2,370,000</u>	<u>\$ 338,960</u>

Ordinance 2010-06-16 was passed by the City Council for issuance of Series 2010A General Obligation Bonds (Alternate Revenue Source) in an amount not to exceed \$6,200,000.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

During the fiscal year ended April 30, 2011, the City issued \$6,120,000 of General Obligation Bonds (Alternate Revenue Source), Series 2010A for the Lincolnway-Lynn Tax Increment Financing Project. These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on May 1 each year with interest is at 2.50% to 5.25% due May 1 and November 1 each year through May 1, 2031.

Payments are due as follows:

Year Ending	Principal	Interest
April 30		
2018	\$ -	\$ 121,181
2019	235,000	238,132
2020	250,000	229,152
2021	260,000	219,203
2022	275,000	207,815
2023-2027	1,730,000	820,953
2028-2032	2,295,000	308,569
	<u>\$ 5,045,000</u>	<u>\$ 2,145,005</u>

Ordinance 2010-12-36 was passed by the City Council for issuance of Series 2010D General Obligation Bonds (Alternate Revenue Source) in an amount not to exceed \$4,500,000.

During the fiscal year ended April 30, 2011, the City issued \$4,000,000 of General Obligation Bonds (Alternate Revenue Source), Series 2010D for the Coliseum remodel project. These bonds are payable from property taxes and sales tax. The bonds are due in annual installments due on January 1 each year with interest is at 3.80% to 7.50% due January 1 and July 1 each year through January 1, 2035. The City also receives a 45.00% tax rebate on every interest payment.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending	Principal	Interest
April 30		
2018	\$ 120,000	\$ 140,709
2019	135,000	137,508
2020	145,000	133,536
2021	150,000	129,070
2022	160,000	124,244
2023-2027	925,000	531,919
2028-2032	1,195,000	329,140
2033-2035	865,000	72,393
	\$ 3,695,000	\$ 1,598,519

Ordinance 2012-11-32 was passed by the City Council for issuance of Series 2012 General Obligation Refunding Bonds (Alternate Revenue Source) in an amount not to exceed \$33,500,000.

During the fiscal year ended April 30, 2013, the City issued \$30,370,000 of General Obligation Refunding Bonds (Alternate Revenue Source), Series 2012 for the refunding of existing hospital revenue bonds and for new hospital capital expenditures. These bonds are payable solely from revenues generated by CGH Medical Center. The bonds are due in annual installments due on May 1 each year with interest is at 2.00% to 4.00% due May 1 and November 1 each year through November 1, 2022.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending	Principal	Interest
<u>April 30</u>		
2018	\$ 2,750,000	\$ 334,100
2019	2,830,000	585,700
2020	2,930,000	500,800
2021	3,055,000	383,600
2022	3,205,000	261,400
2023	3,330,000	133,200
	<u>\$ 18,100,000</u>	<u>\$ 2,198,800</u>

Redevelopment Agreements

The City entered into a redevelopment agreement on December 3, 2003 which included a note for \$100,000 for redevelopment improvements. The redevelopment note bears no interest and matures on January 1, 2023. As of April 30, 2017, the balance is \$68,000.

The City entered into a redevelopment agreement on December 12, 2002 which included a note for \$360,000 for redevelopment improvements. The redevelopment note bears no interest and matures on April 1, 2019. As of April 30, 2017, the balance is \$35,000.

Intergovernmental Agreements

The City entered into an intergovernmental agreement on November 10, 2011 with the State of Illinois which included a note for \$389,374 for various improvements to the Rock River Bridge. The intergovernmental agreement note bears no interest and matures on January 16, 2019. During the fiscal year ended April 30, 2016, the State of Illinois increased the note by \$59,818 due to a final calculation of costs. As of April 30, 2017, the balance is \$78,219.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Compensated Absences

The City accrues accumulated unpaid sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. Compensated absences at April 30, 2017 are as follows:

Governmental activities	<u>\$ 324,440</u>
Business-type activities	<u>\$ 41,304</u>

Business-Type Activities

Loans Payable

The City entered into a loan agreement for \$2,117,933 with the Illinois Environmental Protection Agency dated July 1, 1997, with final payment due March 1, 2018. Interest is at 2.89%, with payments of \$70,966 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2017, the balance is \$138,914.

The City entered into a loan agreement for \$826,930 with the Illinois Environmental Protection Agency dated October 7, 2005, with final payment due February 1, 2026. Interest is at 2.50%, with payments of \$26,920 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2017, the balance is \$429,367.

Debt Service Requirement to Maturity

Fiscal Year Ending April 30	1997 EPA Loan		2006 EPA Loan	
	Principal	Interest	Principal	Interest
2018	\$ 138,915	\$ 3,018	\$ 43,374	\$ 10,465
2019	-	-	44,466	9,374
2020	-	-	45,584	8,255
2021	-	-	46,731	7,108
2022	-	-	47,906	5,933
2023-2026	-	-	201,306	11,372
	<u>\$ 138,915</u>	<u>\$ 3,018</u>	<u>\$ 429,367</u>	<u>\$ 52,507</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2017:

Assessed valuation - 2016	<u>\$ 165,890,081</u>	
Statutory Debt Limitation (8.625% of assessed limitation)		\$ 14,308,019
Total debt:		
Alternate revenue source bonds	26,840,000	
Tax increment revenue bonds	2,370,000	
EPA loans payable	<u>568,281</u>	<u>29,778,281</u>
Less:		
Alternate revenue source bonds	26,840,000	
Tax increment revenue bonds	2,370,000	
EPA loans payable	<u>568,281</u>	<u>29,778,281</u>
Total amount of debt applicable to debt limit		<u>-</u>
Legal Debt Margin		<u>\$ 14,308,019</u>

Note 7. Employee Retirement Systems

Plan Descriptions

The City contributes to three defined benefit pension plans, the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer public employee retirement system; the Police Pension Plan, which is a single-employer pension plan; and the Firefighters' Pension Plan, which is also a single-employer pension plan. The benefits, benefit levels, employee contributions and employer contributions for all three plans are governed by Illinois Compiled Statutes (ILCS) and can only be amended by the Illinois General Assembly. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. That report may be obtained on-line at www.imrf.org.

Illinois Municipal Retirement

All employees (other than those covered by the Police or Firefighters' Pension Plans) hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired *before* January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

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 service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3% of the original pension amount, or
- ½ of the increase in the Consumer Price Index of the original pension amount.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Employees Covered by Benefit Terms

As of December 31, 2015, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	116
Inactive plan members entitled to but not yet receiving benefits	49
Active plan members	<u>60</u>
Total	<u>225</u>

Contributions

As set by statute, the City's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The City's annual contribution rate for calendar year 2016 was 10.00%. For the calendar year 2016, the City contributed \$254,934 to the plan. The City 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 IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability/(Asset)

The City's net pension liability/(asset) was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The following are the methods and assumptions used to determine total pension liability at December 31, 2016:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Assumptions	
Inflation	2.75%
Salary increases	3.75% to 14.50%
Investment rate of return	7.50%

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Actuarial Assumptions (Continued)

The projected retirement age was from the experience-based table of rates that are specific to the type of eligibility condition, last updated for the 2014 valuation pursuant to an experience study of the period 2011-2013.

The IMRF-specific rates for mortality (for non-disabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives. For active members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Single Discount Rate

A Single Discount Rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.78%, and the resulting single discount rate is 7.50%.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Changes in the Net Pension Liability/(Asset)

	Pension Liability (A)	Plan Net Position (B)	Net Pension Liability (Asset) (A)-(B)
Balances at December 31, 2015	\$ 25,632,528	\$ 24,462,940	\$ 1,169,588
Changes for the year:			
Service cost	261,487	-	261,487
Interest on the total pension liability	1,870,026	-	1,870,026
Differences between expected and actual experience of the total pension liability	263,606	-	263,606
Changes of assumptions	(29,341)	-	(29,341)
Contributions - employer	-	254,934	(254,934)
Contributions - employees	-	119,723	(119,723)
Net investment income	-	1,685,926	(1,685,926)
Benefit payments, including refunds of employee contributions	(1,592,610)	(1,592,610)	-
Other (net transfer)	-	266,571	(266,571)
Net changes	<u>773,168</u>	<u>734,544</u>	<u>38,624</u>
Balances at December 31, 2016	<u>\$ 26,405,696</u>	<u>\$ 25,197,484</u>	<u>\$ 1,208,212</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the plan's net pension liability/(asset), calculated using a single discount rate of 7.50% as well as what the plan's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset)	<u>\$ 4,370,362</u>	<u>\$ 1,208,212</u>	<u>\$ (1,401,203)</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$584,811. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 338,512	\$ -
Changes of assumptions	9,011	19,393
Net difference between projected and actual earnings on pension plan investments	1,133,050	-
Employer contributions made subsequent to Plan's membership date but before City's fiscal year end	82,070	-
Total	\$ 1,562,643	\$ 19,393

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:	
2017	\$ 622,870
2018	445,546
2019	370,142
2020	22,622
2021	-
Thereafter	-
Total	\$ 1,461,180

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems

Police Pension

Plan Administration

Police sworn personnel are covered by the Police Pension Plan, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contributions levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Police Pension Plan as a pension trust fund.

The plan is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active police employees.

Plan Membership

At April 30, 2017, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	26
Inactive plan members entitled to but not yet receiving benefits	2
Current employees	<u>26</u>
Total	<u>54</u>

Benefits Provided

The Police Pension Plan provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier I employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to one-half of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75% 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. The monthly benefit of a police officer 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% of the original pension and 3% compounded annually thereafter.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Benefits Provided (Continued)

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of credible service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% of ½ of the change in the Consumer Price Index for the proceeding calendar year.

Contributions

Employees are required by ILCS to contribute 9.91% 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. The City is required to contribute the remaining amounts necessary to finance the plan, as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2017, the City's contribution was 63.20% of covered payroll.

Investment Policy

Illinois Compiled Statutes ILCS) limit the Police Pension Fund's (the Fund) investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest 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 agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Investment Policy (Continued)

three highest classifications by at least two standard rating services, investment grade corporate bonds, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds and corporate equity securities and real estate investment trusts. During the year, no changes were made to the investment policy.

The Fund's investment policy in accordance with the ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	34%	1.48%
US equity	6%	1.85%
Foreign equity	48%	5.00%
Cash	12%	1.12%

ILCS limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in April 2017 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2017 are listed in the table above.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Investment Valuations

All investments in the plan are stated at fair value and are recorded as of the trade date. Fair value is based on the quoted market prices as of April 30, 2017 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2017, more than 5% of the Fund's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 23.69% of the Fund's total investments

Investment Rate of Return

For the year ended April 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy requires all bank balances to be covered by federal depository insurance.

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2017:

	Investment Maturities (in years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 or more</u>
Fixed income securities	<u>\$ 4,766,045</u>	<u>\$ 306,708</u>	<u>\$ 2,688,793</u>	<u>\$ 1,171,905</u>	<u>\$ 598,639</u>

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Interest Rate Risk (Continued)

yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The fixed income securities are not rated Baa3 to Aaa by Moody's. However, certain fixed income securities are not rated.

Net Pension Liability

The components of the net pension liability of the Police Pension Plan as of April 30, 2017 were as follows:

Total pension liability	\$ 26,017,227
Plan fiduciary net position	13,556,850
City's net pension liability	12,460,377
Plan fiduciary net position as a percentage of the total pension liability	52%

See the schedule of changes in the employer's net pension liability and related ratios in the required supplementary information for additional information related to the funded status of the Fund.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2017 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2017
Actuarial cost method	Entry age normal (Level %)
Assumptions	
Inflation	2.50%
Salary increases	3.25%
Interest rate	6.50%
COLA	2.50%
Asset valuation	Market value

Mortality rates were based on the L&A 2016 Illinois Police Mortality Rates.

Discount Rate

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 6.50% was blended with the index rate of 3.82% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2017 to arrive at a discount rate of 6.50% used to determine the total pension liability.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Changes in the Net Pension Liability

	<u>Liability (A)</u>	<u>Net Position (B)</u>	<u>Liability (Asset) (A)-(B)</u>
Balances at April 30, 2016	\$ 25,497,758	\$ 12,518,938	\$ 12,978,820
Changes for the year:			
Service cost	401,244	-	401,244
Interest on the total pension liability	1,616,042	-	1,616,042
Differences between expected and actual experience of the total pension liability	45,958	-	45,958
Changes of assumptions	(272,633)	-	(272,633)
Contributions - employer	-	997,120	(997,120)
Contributions - employees	-	150,950	(150,950)
Net investment income	-	1,189,207	(1,189,207)
Benefit payments, including refunds of employee contributions	(1,271,142)	(1,271,142)	-
Other (net transfer)	-	(28,223)	28,223
Net changes	<u>519,469</u>	<u>1,037,912</u>	<u>(518,443)</u>
Balances at April 30, 2017	<u>\$ 26,017,227</u>	<u>\$ 13,556,850</u>	<u>\$ 12,460,377</u>

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 6.50% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.50%) or 1 percentage point higher (5.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net pension liability	<u>\$ 16,348,779</u>	<u>\$ 12,460,377</u>	<u>\$ 9,326,999</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2017, the City recognized pension expense of \$1,686,008. At April 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 381,035	\$ -
Changes of assumptions	1,732,343	235,080
Net difference between projected and actual earnings on pension plan investments	641,432	304,314
Total	\$ 2,754,810	\$ 539,394

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:

2018	\$ 600,263
2019	600,263
2020	600,259
2021	386,453
2022	67,521
Thereafter	(39,343)

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension

Fire sworn personnel are covered by the Firefighters' Pension Plan, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contributions levels are governed by Illinois Compiled Statutes (40 ILCS 5/4-1) and may be amended only by the Illinois legislature. The City accounts for the Firefighters' Pension Plan as a pension trust fund.

The plan is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active firefighter employees.

Plan Membership

At April 30, 2017, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	30
Inactive plan members entitled to but not yet receiving benefits	-
Current employees	<u>19</u>
Total	<u>49</u>

Benefits Provided

The following is a summary of benefits of the plan as provided for in ILCS:

The Firefighters' Pension Plan provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier I employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to one-half of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75% of such 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 benefit. The monthly benefit of a firefighter 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% of the original pension and 3% compounded annually thereafter.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Benefits Provided (Continued)

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of credible service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Firefighters' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 firefighter shall be increased annually at age 60 on the January 1st after the firefighter retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% of ½ of the change in the Consumer Price Index for the proceeding calendar year.

Contributions

Employees are required by ILCS to contribute 9.455% 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. The City is required to contribute the remaining amounts necessary to finance the Fund as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2017, the City's contribution was 87.4% of covered payroll.

Investment Policy

Illinois Compiled Statutes ILCS) limit the Firefighter's Pension Fund's (the Fund) investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest 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 agreements to

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Investment Policy (Continued)

repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment grade corporate bonds, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds and corporate equity securities and real estate investment trusts. During the year, no changes were made to the investment policy

The Fund's investment policy in accordance with the ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	34%	1.48%
US equity	6%	5.00%
Foreign equity	48%	1.12%
Cash	12%	-0.86%

ILCS limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in April 2017 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2017 are listed in the table above.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Investment Valuations

All investments in the plan are stated at fair value and are recorded as of the trade date. Fair value is based on the quoted market prices as of April 30, 2017 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2017, more than 5% of the Fund's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 23.05% of the Fund's total investments

Investment Rate of Return

For the year ended April 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.12%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy requires all bank balances to be covered by federal depository insurance.

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2017:

	Investment Maturities (in years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 or more</u>
Fixed income securities	<u>\$ 4,378,448</u>	<u>\$ 571,859</u>	<u>\$ 2,963,614</u>	<u>\$ 504,355</u>	<u>\$ 338,620</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Interest Rate Risk (Continued)

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The fixed income securities are not rated Baa3 to Aaa by Moody's. However, certain fixed income securities are not rated.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund's agent separate from where the investment was purchased in the Fund's name. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

The components of the net pension liability of the Firefighters' Pension Plan as of April 30, 2017 were as follows:

Total pension liability	\$ 25,660,448
Plan fiduciary net position	12,161,780
City's net pension liability	13,498,668
Plan fiduciary net position as a percentage of the total pension liability	47%

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Net Pension Liability (Continued)

See the schedule of changes in the employer's net pension liability and related ratios in the required supplementary information for additional information related to the funded status of the Fund.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2017 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2017
Actuarial cost method	Entry age normal (Level %)
Assumptions	
Inflation	2.50%
Salary increases	3.25%
Interest rate	6.50%
COLA	2.50%
Asset valuation	Market value

Mortality rates were based on the L&A 2016 Illinois Firefighters Mortality Rates.

Discount Rate

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 6.50% was blended with the index rate of 3.82% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2017 to arrive at a discount rate of 6.50% used to determine the total pension liability.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Changes in the Net Pension Liability

	<u>Liability (A)</u>	<u>Net Position (B)</u>	<u>Liability (Asset) (A)-(B)</u>
Balances at April 30, 2016	\$ 25,446,534	\$ 11,444,700	\$ 14,001,834
Changes for the year:			
Service cost	289,576	-	289,576
Interest on the total pension liability	1,607,868	-	1,607,868
Differences between expected and actual experience of the total pension liability	(12,288)	-	(12,288)
Changes of assumptions	(251,032)	-	(251,032)
Contributions - employer	-	998,670	(998,670)
Contributions - employees	-	107,617	(107,617)
Net investment income	-	1,081,230	(1,081,230)
Benefit payments, including refunds of employee contributions	(1,420,210)	(1,420,210)	-
Other (net transfer)	-	(50,227)	50,227
Net changes	<u>213,914</u>	<u>717,080</u>	<u>(503,166)</u>
Balances at April 30, 2017	<u>\$ 25,660,448</u>	<u>\$ 12,161,780</u>	<u>\$ 13,498,668</u>

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 6.50% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net pension liability	<u>\$ 16,936,579</u>	<u>\$ 13,498,668</u>	<u>\$ 10,678,192</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2017, the City recognized pension expense of \$1,756,907. At April 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 876,262	\$ 10,522
Changes of assumptions	1,920,389	214,963
Net difference between projected and actual earnings on pension plan investments	544,378	279,327
Total	\$ 3,341,029	\$ 504,812

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:	
2018	\$ 677,824
2019	677,824
2020	677,822
2021	496,365
2022	342,697
Thereafter	(36,315)

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 7. Employee Retirement Systems (Continued)

Significant Investments

There are significant investments (other than U.S. Government guaranteed obligations) in the Police Pension Plan and the Firefighters' Pension Plan that represent 5.0% or more of plan net assets. Information for IMRF is not available.

Funded Status

The funded status of the plans as of December 31, 2016 (for IMRF) and as of April 30, 2017 (for Police and Firefighters' Pension Funds), based on actuarial valuations performed as of the same date, 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 APC of the plans as disclosed earlier in Note 7:

	Illinois Municipal Retirement
Actuarial accrued liability (AAL)	\$ 10,389,009
Actuarial value of plan assets	9,558,198
Unfunded actuarial accrued liability (UAAL)	830,811
Funded ratio (Actuarial value of the plan assets/AAL)	92.00%
Covered payroll (Active plan members)	2,549,350
UAAL as a percentage of covered payroll	32.59%

See the schedules of funding progress in the required supplementary information immediately following the notes to the financial statements for additional information related to the funded status of the plans.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 8. Other Postemployment Benefits

The City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective May 1, 2009. This statement requires the costs of postemployment benefits other than pension benefits to be recognized over a period that approximates an employee's years of service. Implementation of this statement resulted in recording a liability of \$2,167,987 as of April 30, 2016. Additional disclosures required by this statement are included below.

Plan Description

In addition to providing the pension benefits described in Note 7, the City provides postemployment health care benefits (OPEB) for retired employees through a single-employer health care plan that provides medical, prescription drug, and dental benefits to all active and retired employees and their eligible dependents. Retiree coverage begins at IMRF retirement age of at least 55 and continues until the retiree is Medicare eligible.

The benefits, benefit levels, employee contributions, and 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, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the City's governmental and business-type activities.

Membership

Membership in the OPEB comprised the following at April 30, 2016:

Retirees and beneficiaries currently receiving benefits	42
Terminated employees entitled to benefits but not yet receiving them	-
Active employees:	
Vested	4
Nonvested	<u>81</u>
Total	<u>127</u>
Participating employers	<u>1</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 8. Other Postemployment Benefits

Funding Policy

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. Retirees contribute 100% of the retiree and/or spouse rate.

Annual OPEB Costs and Net OPEB Obligations

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC is the periodic required contribution to fund the postemployment health care benefits of both active and retired employees, calculated in accordance with GASB Statement No. 45. It includes both the value of benefits earned during the year (normal cost) and an amortization of the unfunded actuarial accrued liability. Although there is no requirement to make contributions equal to the ARC, it serves as a starting point for determining the annual OPEB cost.

The annual OPEB cost is the amount the City charges as the cost of the postemployment health care benefits each fiscal year. If there is no net OPEB obligation, then the annual OPEB cost is equal to the ARC. However, if there is a net OPEB obligation, the annual OPEB cost reflects adjustment for interest on the net OPEB obligation. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended April 30, 2017 was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
April 30, 2017	\$ 291,536	\$ 326,537	112%	\$ 2,167,987
April 30, 2016	291,536	326,537	112%	2,167,987
April 30, 2015	378,966	168,158	44%	1,765,076
April 30, 2014	378,966	168,158	44%	1,765,076

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 8. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

The net OPEB obligation as of April 30, 2016 was calculated as follows:

Annual required contribution	\$ 276,849
Interest on net pension obligation	88,120
Adjustment to annual required contribution	(73,433)
Annual OPEB cost	<u>\$ 291,536</u>
Contributions made	<u>(326,537)</u>
Change in net OPEB obligation	\$ (35,001)
Net OPEB obligation, beginning of year	<u>2,202,988</u>
Net OPEB obligation, end of year	<u><u>\$ 2,167,987</u></u>

The net OPEB obligation is the difference between the annual OPEB cost and the City's contributions to the plan since the implementation date.

Funded Status and Funding Progress. The funded status of the plan as of April 30, 2016 was as follows:

Actuarial accrued liability (AAL)	\$ 5,728,303
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	5,728,303
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 4,623,967
UAAL as a percentage of covered payroll	124%

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 health care cost trend. Amounts determined regarding the funded status of the plan and the ARCs 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 the plan assets is increasing or decreasing over time relative to the AALs for benefits.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 8. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (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 the 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.

The unfunded actuarial accrued liability is amortized as a level percentage of pay over thirty years, resulting in an amortization of \$190,943 for the twelve-month period.

In the April 30, 2016 actuarial valuation, the entry age normal cost method was used.

Discount Rate. The discount rate as of April 30, 2016 is 4.00%. The discount rate is determined by the plan sponsor based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the entry age normal cost method. Under this method, the normal cost for each participant is computed as the level percentage of pay which, if paid from the earliest age the participant is eligible to enter the plan until retirement or termination, will accumulate with interest to sufficiently fund all benefits under the plan.

The actuarial accrued liability is calculated by prorating the present value of projected benefits by service at the valuation date over service projected to the date of decrement.

The normal cost is the present value of projected benefits attributable to the valuation year.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 9. Interfund Balances

Operating Transfers

	Transfers In	Transfers Out
General Fund:		
Sewer Fund	\$ 30,000	\$ -
Capital Fund	-	316,000
Municipal Coliseum Fund	-	425,000
	30,000	741,000
Capital Fund:		
General Fund	316,000	-
Sewer Fund:		
General Fund	-	30,000
Municipal Coliseum Fund:		
General Fund	425,000	-
Total operating transfers	\$ 771,000	\$ 771,000

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purposes of interfund operating transfers existing at April 30, 2017 were as follows:

The Sewer Fund transfers \$30,000 annually to the General Fund for reimbursement of studies and plan commission services related to the sewer system.

The General Fund transferred \$425,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum.

The General Fund transferred \$316,000 to the Capital Fund to fund capital purchases for the fiscal year.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 9. Interfund Balances (Continued)

Due From/Due To Other Funds

	Due From Other Funds	Due To Other Funds
General Fund:		
Rock River Tax Increment Allocation Fund	\$ 1,294,990	\$ -
Capital Fund:		
Rock River Tax Increment Allocation Fund	524,636	-
Nonmajor Governmental	861,724	-
	1,386,360	-
CDB Tax Increment Allocation Fund:		
Nonmajor Governmental	108,986	-
CDB East Tax Increment Allocation Fund:		
Nonmajor Governmental	-	34,204
Lincolnway-Lynn Tax Increment Allocation Fund:		
Nonmajor Governmental	-	91,227
Rock River Tax Increment Allocation Fund:		
General Fund	-	1,294,990
Capital Fund	-	524,636
Sewer Fund	-	795,237
Nonmajor Governmental	-	735,912
	-	3,350,775
Sewer Fund:		
Rock River Tax Increment Allocation Fund	795,237	-
Pension Trust Funds:		
Pension Trust Funds	30,273	30,273

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 9. Interfund Balances (Continued)

Due From/Due To Other Funds (Continued)

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Nonmajor Governmental:		
Rock River Tax Increment Allocation Fund	735,912	-
Capital Fund	-	861,724
CBD Tax Increment Allocation Fund	-	108,986
CBD East Tax Increment Allocation Fund	34,204	-
Lincolnway-Lynn Tax Incr Allocation Fund	91,227	-
	<u>861,343</u>	<u>970,710</u>
 Total due from/due to other funds	 <u>\$ 4,477,189</u>	 <u>\$ 4,477,189</u>

Interfund balances resulted from the writing of checks within the common checking account on behalf of funds that do not have adequate balance to cover those checks. For investment purposes interfund loans are made to cover the negative balances.

Note 10. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2017:

	<u>Expenditures</u>	<u>Budget</u>
Municipal Coliseum Fund	\$ 441,782	\$ 435,663
IGIG Grant Fund	643,885	612,389
Policemen's Pension Fund	1,329,985	1,326,744

The following funds had deficit fund balances or deficit retained earnings at April 30, 2017:

	<u>Deficit</u>
CBD East Tax Increment Allocation Fund	\$ 34,204
Lincolnway-Lynn Tax Increment Allocation Fund	91,227
Rock River Tax Increment Allocation Fund	2,343,511
Municipal Coliseum Fund	616,366
IGIG Grant Fund	18,366

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center

The following is a summary of certain accounting policies and note disclosures for the CGH Medical Center. Complete financial statements and note disclosures are available in the separately issued CGH Medical Center annual report for the fiscal year ended April 30, 2017.

Basis of Accounting

The Medical Center uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents

Cash and cash equivalents (excluding those assets limited as to use) include liquid investments with maturities of three months or less when purchased.

Patient Accounts Receivable and Credit Policies

Patient accounts receivable are uncollateralized patient and third-party payer obligations which generally require payment within thirty days from invoice date. Statements are sent out approximately every thirty days. On the fourth statement the account is considered delinquent and a collection letter is sent. The account is turned over to collection at approximately one hundred twenty days, unless the patient account has been set up on a payment plan. At the time they are turned over to collection, they are also written off as uncollectible.

Payments of patient accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, research is done to identify invoices paid, if invoices cannot be identified, the payment goes against the earliest invoice outstanding.

The carrying amount of patient accounts receivable is reduced by valuation allowances that reflect management's best estimate of amounts that will not be collected. Management uses a system for estimating third-party contractual allowances and losses for uncollectible accounts, whereby certain percentages of patient service revenue for each of these allowances is recorded on a monthly basis as an offset to patient service revenue and patient accounts receivable. The percentages used by management are based off of historical trends in Federal and State governmental and private employer health care coverage and trends with final adjustments made when private person cost reports are filed, if applicable. Periodically management reviews outstanding accounts for creditworthiness.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Inventories

General stores, pharmacy and other inventories are carried at lower of cost or market, cost being determined on the “average” basis of accounting.

Investments and Investment Income

State statutes authorize the Medical Center to invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of the same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act.

Investments in debt and equity securities are carried at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Limited as to Use

Assets limited as to use includes assets for health development which donors have contributed for specific purposes or assets that have been designated by the board over which the board retains control and may, at its discretion, subsequently use for other purposes.

Compensated Absences

Benefits for vacation, holidays, personal days, funeral days, and sick days are combined into one program called Earned Time Off (ETO). Employees’ compensated absences are accrued when earned. The employees earn ETO days at varying rates depending on years of service. Employees may accumulate ETO hours earned. Up to 80 hours of ETO earned and accrued in excess of 480 hours (60 days) may be bought back from the employee in July of each year. The obligation and expenditure incurred during the year are recorded as salaries, wages, and benefits in the statement of net position, and as a component of employee benefits in the statement of activities.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Long-Term Liabilities

Long-term liabilities include principal amounts of bonds payable with contractual maturities greater than one year. Also included in the long-term liabilities is net pension liability for pension benefits employees have earned.

Net Position

The Medical Center's net position is classified as follows:

- *Net investment in capital assets* consist of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted net position* is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors. The restricted amounts for health development consist of amounts designated internally or donated by various individuals, estates, grants, etc. These funds are restricted internally or by the donors for specific purposes.
- *Unrestricted net position* is remaining net assets that do not meet the definition of *net investment in capital assets* or *restricted*.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; medical malpractice; employee injuries and illnesses; natural disasters and employee health, dental, and accident benefits.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payers was as follows:

Medicare	28%
Medicaid	8
State of Illinois – commercial	19
Blue Cross	12
Other third-party payors	21
Patients	<u>12</u>
Total	<u>100%</u>

Classification of Revenues and Expenses

The Medical Center has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as patient service revenues. The statement of Revenues, Expenses, and Changes in Net Position includes an intermediate measure of operations, income from operations that represents the activity of the ongoing operations of the Medical Center. Other income and expense, excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Medical Center's primary activities.

Operating expenses – Operating expenses are all expenses incurred to provide healthcare related services, other than financing costs.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as other revenue sources that are defined as nonoperating revenues by GASB for example, investment income and contributions.

Net Patient Service Revenue

The Medical Center has agreements with third party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Net Patient Service Revenue (Continued)

from patients, third party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Medical Center has agreements with third party payers that provide for payments to the Medical Center at amounts different from its established rates. Following is a summary of the payment arrangements with major third party payors:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Beginning in 2002, the Medical Center claimed Medicare payments based on an interpretation of certain “disproportionate share” rules. The Medical Center has applied for additional reimbursement under the “disproportionate share” rules for all years from 2002 forward. The Medical Center is also classified as a Medicare Dependent Hospital. The Medical Center has included approximately \$2,266,000 of reimbursement related to disproportionate share and Medicare dependent costs in net patient service revenue for the year ended April 30, 2017. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to independent review by a peer review organization. The Medical Center's Medicare cost reports have been final settled by the Medicare fiscal intermediary through April 30, 2014.

Medicaid

Inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Both inpatient and outpatient rates are not subject to retroactive adjustment.

The Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program). Under the Program, the Medical Center receives additional Medicaid reimbursement from the State. The Program has been extended through June 30, 2018. Cash payments of \$4,250,278 were received and were included in net patient service revenue for the year ended April 30, 2017.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Net Patient Service Revenue (Continued)

Medicaid (Continued)

The Department of Healthcare and Family Services is to make hospital access improvement payments for the period through June 30, 2018. Cash payments of \$4,544,068 were received and were included in net patient service revenue for the year ended April 30, 2017.

Blue Cross

For inpatient services rendered at CGH Medical Center to Blue Cross subscribers are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by Blue Cross. The Medical Center's Blue Cross cost reports have been audited through April 30, 2016.

Other

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 8%, respectively, of the Medical Center's net patient service revenue for the year ended April 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of contractual allowances will change by a material amount in the near term.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care includes the amount of costs forgone for services and supplies furnished under its charity care policy and was approximately \$2,500,000 for the year ended April 30, 2017. Charity care cost was determined on the application of the associated cost-to-charge ratios.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Component Units

The CGH Health Centers, Rock River Health, Inc. and CGH Health Foundation, Inc., are blended component units of CGH Medical Center. These organizations have been consolidated in the presentation of CGH Medical Center as a component unit of the City.

Income Taxes

CGH Medical Center is considered a governmental entity and is exempt from tax.

Rock River Health, Inc. and CGH Health Foundation, Inc., blended component units of CGH Medical Center, are not-for-profit corporations and have been recognized as tax exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

The Medical Center applies the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

Capital Assets

Capital asset acquisitions are recorded at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Contributed assets are recorded at their estimated fair value at the time of their donation. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from three to forty years, and is computed using the straight-line method.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Deposits and Investments

The carrying amount of the Medical Center's cash and deposits was \$45,194,546 and the bank balances totaled \$45,922,367. Cash on hand was \$5,795.

As of April 30, 2017, the Medical Center had the following investments

	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	10 or more
Certificates of Deposit	\$ 24,834,128	\$ 16,526,354	\$ 8,057,774	\$ 250,000	\$ -
Mutual Funds	4,691,856	4,691,856	-	-	-
FNMA	1,660,272	449,229	532,660	-	678,383
FHLB	1,935,506	396,116	1,539,390	-	-
GNMA	1,599,172	-	-	-	1,599,172
FHLMC	5,661,073	250,000	4,734,350	-	676,723
Municipal Bonds	10,868,007	3,451,383	7,109,933	206,704	99,987
	<u>\$ 51,250,014</u>	<u>\$ 25,764,938</u>	<u>\$ 21,974,107</u>	<u>\$ 456,704</u>	<u>\$ 3,054,265</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center limits funds that are not directly matched with anticipated cash flow requirements to maturities primarily less than a five-year average weighted life.

Credit Risk

The Medical Center's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements and state statutes, seek reasonable income, preserve capital, maintain liquidity, and in general, avoid speculative instruments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center's investment policy allows that funds on deposit with one institution shall not represent more than 50% of the Medical Center's invested funds at any one time. Additionally, the Medical Center allows that funds on deposit in excess of FDIC limits must be secured by some form of collateral held by the institutions in the name of the Medical Center.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Revenue Bonds Payable

At April 30, 2017, bonds payable consisted of the following issues:

2012 City of Sterling Hospital General Obligation Refunding Bonds, dated December 20, 2012, due in annual installments through 2022, bearing interest at variable rates ranging from 2.00% to 4.00%. The interest is payable semiannually.

Transactions for the year ended April 30, 2017, are summarized as follows:

	<u>Balance at May 1, 2016</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2017</u>
2012 City of Sterling Hospital General				
Obligation Refunding Bonds	\$ 20,795,000	\$ -	\$ 2,695,000	\$ 18,100,000
Unamortized bond discount	1,179,830	-	179,215	1,000,615
Total revenue bonds payable	<u>\$ 21,974,830</u>	<u>\$ -</u>	<u>\$ 2,874,215</u>	<u>\$ 19,100,615</u>

For the Series 2012 obligation bonds, annual requirements of principal payments to retire debt obligations are due on November 1st each year. Interest only payments are due on May 1st and November 1st each year. Annual requirements to retire debt obligations are as follows:

<u>Year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,750,000	\$ 668,200	\$ 3,418,200
2019	2,830,000	585,700	3,415,700
2020	2,930,000	500,800	3,430,800
2021	3,055,000	383,600	3,438,600
2022	3,205,000	261,400	3,466,400
2023	3,330,000	133,200	3,463,200
	<u>\$ 18,100,000</u>	<u>\$ 2,532,900</u>	<u>\$ 20,632,900</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Capital Assets

Capital asset activity for the year ended April 30, 2017 was as follows:

	<u>Balance at May 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2017</u>
Medical Center				
Land	\$ 2,649,399	\$ 75,041	\$ -	\$ 2,724,440
Land Improvements	4,104,653	62,036	5,850	4,160,839
Buildings and building improvements	88,524,931	872,439	137,445	89,259,925
Rented buildings	823,861	2,699	-	826,560
Building service equipment	13,733,621	-	104,449	13,629,172
Moveable equipment	86,397,632	4,177,253	8,461,664	82,113,221
Construction in progress	553,746	893,788	-	1,447,534
Total cost	<u>\$ 196,787,843</u>	<u>\$ 6,083,256</u>	<u>\$ 8,709,408</u>	<u>\$ 194,161,691</u>
Less accumulated depreciation for:				
Land improvements	\$ 2,313,610	\$ 254,621	\$ 5,850	\$ 2,562,381
Buildings	47,502,067	3,470,293	137,445	50,834,915
Rented buildings	818,931	2,041	-	820,972
Building service equipment	11,807,829	245,532	104,449	11,948,912
Moveable equipment	59,888,897	7,650,088	8,329,719	59,209,266
Total accumulated depreciation	<u>\$ 122,331,334</u>	<u>\$ 11,622,575</u>	<u>\$ 8,577,463</u>	<u>\$ 125,376,446</u>
Total Medical Center capital assets, net	<u><u>\$ 74,456,509</u></u>	<u><u>\$ (5,539,319)</u></u>	<u><u>\$ 131,945</u></u>	<u><u>\$ 68,785,245</u></u>

Self-Insurance Plan

The Medical Center adopted a "self-insured" employee medical health plan effective November 1, 1984. A co-insurance policy is maintained covering plan participants for all costs in excess of \$300,000 per person annually. The plan year runs from January 1 to December 31. The Medical Center estimates the amount of incurred but unpaid claims at April 30, 2017 to be approximately \$1,419,000, which is included in other liabilities on the combined statement of net position.

Malpractice Insurance

During the current year, the Medical Center was insured for professional and general liability insurance coverage on a claims-made basis through the Illinois Providers' Trust

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 11. Component Unit - CGH Medical Center (Continued)

Malpractice Insurance (Continued)

(IPT). A claims-made policy covers the Medical Center for only those claims reported to IPT within reporting periods as defined in the policy. The estimated liability accrued for unpaid losses and incurred but not reported claims at year-end was \$1,331,597. IPT is a risk pooling arrangement among tax-exempt, not-for-profit entities designed to protect against the risk of financial loss due to the imposition of legal liability, which was established under the Illinois Religious and Charitable Risk Pooling Trust Act. Funding is based on actuarially determined funding requirements. The provision for insurance is based on the Medical Center's experience and future premiums can be adjusted for favorable or unfavorable retrospective experience.

Prior to joining IPT, the Medical Center purchased professional and general liability insurance to cover medical malpractice claims. The policy was a claims made policy that had a retroactive date of May 1, 1979.

The Medical Center purchases separate professional liability insurance to cover medical malpractice claims for specific employed physicians. The policies are claims made policies that have retroactive dates of May 1, 1979.

There are known claims from services provided to patients. The claims appear to be covered claims, and are in various stages of the discovery process and investigation.

Note 12. Fund Balances

In fiscal year 2012, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The classifications of fund balances as of April 30, 2017 by opinion unit are as follows:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 12. Fund Balances (Continued)

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Fund</u>	<u>2012 CGH</u> <u>Medical</u> <u>Center</u> <u>Bond</u> <u>Fund</u>	<u>CBD Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>CBD Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Lincolnway-</u> <u>Lynn Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Rock River Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Other Gov't</u> <u>Funds</u>	<u>Total Gov't</u> <u>Funds</u>
Fund Balances:									
Nonspendable:									
Inventories	\$ 62,480	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,480
Prepaid Items	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	30,101	30,101
Total nonspendable	\$ 62,480	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,101	\$ 92,581
Restricted:									
Public Safety	\$ 158,562	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,263	\$ 259,825
Community Dev	-	-	44	476,297	-	-	-	859,251	1,335,592
Culture & Rec	-	-	-	-	-	-	-	1,130,364	1,130,364
Cap Imp & Equip	-	-	-	-	-	-	-	98,312	98,312
IMRF/Soc Sec	-	-	-	-	-	-	-	679,562	679,562
Total Restricted	\$ 158,562	\$ -	\$ 44	\$ 476,297	\$ -	\$ -	\$ -	\$ 2,868,752	\$ 3,503,655
Committed:									
Cap Imp & Equip	\$ -	\$ 3,176,714	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,176,714
Unassigned	\$ 6,204,030	\$ -	\$ -	\$ -	\$ (34,204)	\$ (91,227)	\$ (2,343,511)	\$ (585,974)	\$ 3,149,114
Total Fund Balance	\$ 6,425,072	\$ 3,176,714	\$ 44	\$ 476,297	\$ (34,204)	\$ (91,227)	\$ (2,343,511)	\$ 2,312,879	\$ 9,922,064

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2017

Note 13. Impact of Pending Accounting Principles

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* addresses the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The City has not determined the effect of this Statement.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* amends the blended requirements by requiring the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has not determined the effect of this Statement.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No 73* amends the required presentation to include the covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Statement are effective for reporting periods in which the measurement date of the pension liability is after June 15, 2017. The City has not determined the effect of this Statement.

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations, and requires the current value of a government's asset retirement obligations to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this Statement are effective for reporting period in which the measurement date of the pension liability is after June 15, 2018. The City has not determined the effect of this Statement.

Note 14. Subsequent event

Subsequent to year end, the City issued \$9,665,000 in Alternate Revenue Source bonds for the purpose of financing various public infrastructure projects including stormwater and road improvements. The interest rate is 2.0% to 4.0% for the 20 year issue.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
April 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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}
IMRF						
12/31/16	\$ 9,558,198	\$ 10,389,009	\$ 830,811	92.00%	\$ 2,549,350	32.59%
12/31/15	9,217,980	9,872,615	654,635	93.37%	2,579,296	25.38%
12/31/14	9,832,225	10,862,861	1,030,636	90.51%	2,614,977	39.41%
12/31/13	9,890,800	10,792,896	902,096	91.64%	2,567,862	35.13%
12/31/12	8,153,079	9,844,591	1,691,512	82.82%	2,507,281	67.46%
12/31/11	8,127,464	9,881,985	1,754,521	82.25%	2,471,182	71.00%

On a market value basis, the actuarial value of assets as of December 31, 2016 is \$9,330,580. On a market basis, the funded ratio would be 89.81%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with the City of Sterling. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

Other Postemployment Benefits

4/30/16	\$ -	\$ 5,728,303	\$ 5,728,303	0.00%	\$ 4,623,967	123.88%
4/30/13	-	7,235,440	7,235,440	0.00%	7,808,958	92.66%

Notes to the Schedule:

Valuation date: Actuarially determined contribution rates are calculated as of May 1 of the fiscal year

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of pay
Remaining amortization period	30 years
Asset valuation method	Market
Rate of compensation	4%
Healthcare cost trend rate	7% for 2016, declining to an ultimate rate of 5.5% for 2025 and later years
Investment rate of return	4%

CITY OF STERLING, ILLINOIS
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 261,487	\$ 282,450	\$ 295,014
Interest	1,870,026	1,810,463	1,683,924
Changes of benefit terms	-	-	-
Differences between expected and actual experience	263,606	522,749	835,416
Changes of assumptions	(29,341)	28,671	834,269
Benefit payments, including refunds of member contributions	(1,592,610)	(2,020,165)	(1,890,156)
Net change in total pension liability	<u>773,168</u>	<u>624,168</u>	<u>1,758,467</u>
Total pension liability - beginning	<u>25,632,528</u>	<u>25,008,360</u>	<u>23,249,893</u>
Total pension liability - ending	<u>\$ 26,405,696</u>	<u>\$ 25,632,528</u>	<u>\$ 25,008,360</u>
Plan fiduciary net position			
Contributions - employer	\$ 254,934	\$ 277,342	\$ 301,519
Contributions - member	119,723	140,306	229,481
Net investment income	1,685,926	122,273	1,451,081
Benefit payments, including refunds of member contributions	(1,592,610)	(2,020,165)	(1,890,156)
Other (net transfer)	266,571	687,407	696,058
Net change in plan fiduciary net position	<u>734,544</u>	<u>(792,837)</u>	<u>787,983</u>
Plan net position - beginning	<u>24,462,940</u>	<u>25,255,777</u>	<u>24,467,794</u>
Plan net position - ending	<u>\$ 25,197,484</u>	<u>\$ 24,462,940</u>	<u>\$ 25,255,777</u>
Employer's net pension liability	<u>\$ 1,208,212</u>	<u>\$ 1,169,588</u>	<u>\$ (247,417)</u>
Plan fiduciary net position as a percentage of the total pension liability	95.42%	95.44%	100.99%
Covered employee payroll	\$ 2,549,350	\$ 2,579,296	\$ 2,637,839
Employer's net pension liability as a percentage of covered-employee payroll	47.39%	45.35%	-9.38%

Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) There were no significant in benefits, changes in assumptions, or other relevant matters to disclose.
- 3) This schedule is reported on the calendar year, not the fiscal year.

**CITY OF STERLING, ILLINOIS
POLICE PENSION FUND**

**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 401,244	\$ 359,321	\$ 381,325
Interest	1,616,042	1,361,202	1,340,752
Changes of benefit terms	-	-	-
Differences between expected and actual experience	45,958	503,986	(45,677)
Changes of assumptions	(272,633)	2,557,269	1,506,037
Benefit payments, including refunds of member contributions	(1,271,142)	(1,105,590)	(949,786)
Net change in total pension liability	<u>519,469</u>	<u>3,676,188</u>	<u>2,232,651</u>
Total pension liability - beginning	<u>25,497,758</u>	<u>21,821,570</u>	<u>19,588,919</u>
Total pension liability - ending	<u><u>\$ 26,017,227</u></u>	<u><u>\$ 25,497,758</u></u>	<u><u>\$ 21,821,570</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 997,120	\$ 703,470	\$ 166,568
Contributions - member	150,950	173,505	645,238
Net investment income	1,189,207	(231,811)	625,895
Benefit payments, including refunds of member contributions	(1,271,142)	(1,105,590)	(949,786)
Other (net transfer)	(28,223)	(31,280)	(25,337)
Net change in plan fiduciary net position	<u>1,037,912</u>	<u>(491,706)</u>	<u>462,578</u>
Plan net position - beginning	<u>12,518,938</u>	<u>13,010,644</u>	<u>12,548,066</u>
Plan net position - ending	<u><u>\$ 13,556,850</u></u>	<u><u>\$ 12,518,938</u></u>	<u><u>\$ 13,010,644</u></u>
Employer's net pension liability	<u><u>\$ 12,460,377</u></u>	<u><u>\$ 12,978,820</u></u>	<u><u>\$ 8,810,926</u></u>
Plan fiduciary net position as a percentage of the total pension liability	52.11%	49.10%	59.62%
Covered employee payroll	\$ 1,577,883	\$ 1,950,742	\$ 1,625,458
Employer's net pension liability as a percentage of covered-employee payroll	789.69%	665.33%	542.06%

Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) Covered employee payroll shown is the total covered payroll for the fiscal year for all fund members.

CITY OF STERLING, ILLINOIS
FIREFIGHTERS' PENSION FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 289,576	\$ 277,986	\$ 267,801
Interest	1,607,868	1,333,204	1,274,276
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(12,288)	1,254,778	451,161
Changes of assumptions	(251,031)	2,749,933	1,687,800
Benefit payments, including refunds of member contributions	(1,420,211)	(1,360,388)	(1,281,161)
Net change in total pension liability	<u>213,914</u>	<u>4,255,513</u>	<u>2,399,877</u>
Total pension liability - beginning	25,446,534	21,191,021	18,791,144
Total pension liability - ending	<u>\$ 25,660,448</u>	<u>\$ 25,446,534</u>	<u>\$ 21,191,021</u>

Plan fiduciary net position			
Contributions - employer	\$ 998,670	\$ 689,721	\$ 101,431
Contributions - member	107,617	104,793	610,272
Net investment income	1,081,230	(135,565)	831,636
Benefit payments, including refunds of member contributions	(1,420,210)	(1,360,388)	(1,281,161)
Other (net transfer)	(50,227)	(19,208)	(17,181)
Net change in plan fiduciary net position	<u>717,080</u>	<u>(720,647)</u>	<u>244,997</u>
Plan net position - beginning	11,444,700	12,165,347	11,920,350
Plan net position - ending	<u>\$ 12,161,780</u>	<u>\$ 11,444,700</u>	<u>\$ 12,165,347</u>

Employer's net pension liability	<u>\$ 13,498,668</u>	<u>\$ 14,001,834</u>	<u>\$ 9,025,674</u>
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Plan fiduciary net position as a percentage of the total pension liability	47.40%	44.98%	57.41%
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Covered employee payroll	\$ 1,142,830	\$ 1,334,381	\$ 1,078,587
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Employer's net pension liability as a percentage of covered-employee payroll	1181.16%	1049.31%	836.81%
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Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) Covered employee payroll shown is the total covered payroll for the fiscal year for all fund members.

CITY OF STERLING, ILLINOIS
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 251,156	\$ 267,121	\$ 302,316
Contribution in relation to the actuarially determined contribution	<u>251,156</u>	<u>267,121</u>	<u>314,764</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,448)</u>
Covered-employee payroll	\$ 2,601,739	\$ 2,623,550	\$ 2,644,307
Contributions as a percentage of covered-employee payroll	9.65%	10.18%	11.90%

Notes to the Schedule of Contributions:

Ultimately, this schedule should present information for the last 10 years. However, until 10 years of information can be compiled, information should be presented for as many years as available.

**CITY OF STERLING, ILLINOIS
POLICE PENSION FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 978,830	\$ 672,068	\$ 628,847
Contribution in relation to the actuarially determined contribution	<u>997,120</u>	<u>703,470</u>	<u>645,238</u>
Contribution deficiency (excess)	<u>\$ (18,290)</u>	<u>\$ (31,402)</u>	<u>\$ (16,391)</u>
Covered-employee payroll	\$ 1,577,883	\$ 1,950,742	\$ 1,625,458
Contributions as a percentage of covered-employee payroll	63.2%	36.1%	39.7%

Notes to the Schedule of Contributions:

Valuation date: Actuarially determined contributions are calculated as of April 30 of the previous fiscal year

Ultimately, this schedule should present information for the last 10 years. However, until 10 years of information can be compiled, information should be presented for as many years as available.

Additional information as of the latest actuarial valuation presented is as follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of pay
Interest rate assumption	6.5%
Amortization period	20 years

**CITY OF STERLING, ILLINOIS
FIREFIGHTERS' PENSION FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2017**

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Actuarially determined contribution	\$ 974,055	\$	616,086	\$	562,046
Contribution in relation to the actuarially determined contribution	<u>998,670</u>		<u>689,721</u>		<u>610,272</u>
Contribution deficiency (excess)	<u>\$ (24,615)</u>	\$	<u>(73,635)</u>	\$	<u>(48,226)</u>
Covered-employee payroll	\$ 1,142,830	\$	1,334,381	\$	1,078,587
Contributions as a percentage of covered-employee payroll	87.4%		51.7%		56.6%

Notes to the Schedule of Contributions:

Valuation date: Actuarially determined contributions are calculated as of April 30 of the previous fiscal year

Ultimately, this schedule should present information for the last 10 years. However, until 10 years of information can be compiled, information should be presented for as many years as available.

Additional information as of the latest actuarial valuation presented is as follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of pay
Interest rate assumption	6.5%
Amortization period	20 years

CITY OF STERLING, ILLINOIS
SCHEDULE OF INVESTMENT RETURNS
April 30, 2017

**Annual Money-
Weighted Rate
of Return, Net of
Investment
Expense**

Police Pension Fund

4/30/17	9.33%
4/30/16	0.60%
4/30/15	5.20%

Firemen Pension Fund

4/30/17	9.12%
4/30/16	-1.10%
4/30/15	7.10%

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Property taxes:				
Corporate	\$ 388,833	\$ 387,292	\$ 387,292	\$ -
Fire protection	233,300	232,372	232,372	-
Police protection	233,300	232,372	232,372	-
Liability insurance	407,104	404,100	404,100	-
Workers' compensation	132,467	133,229	133,229	-
Road and bridge	118,215	126,600	126,600	-
Police pension	969,042	974,420	974,420	-
Fire pension	964,314	969,770	969,770	-
Total property taxes	<u>3,446,575</u>	<u>3,460,155</u>	<u>3,460,155</u>	<u>-</u>
Sales tax	<u>4,063,022</u>	<u>4,282,698</u>	<u>4,237,785</u>	<u>(44,913)</u>
Utility tax	<u>700,000</u>	<u>900,000</u>	<u>924,834</u>	<u>24,834</u>
Intergovernmental revenue:				
State income tax	1,705,786	1,389,000	1,449,204	60,204
State replacement tax	369,993	254,781	354,907	100,126
Township replacement tax	17,500	17,500	16,985	(515)
State forfeiture revenue	-	35,437	37,717	2,280
Blackhawk Area Task Force Grant	55,663	55,663	55,751	88
Tobacco Grant	2,090	4,290	4,290	-
Bulletproof Vest Grant	-	1,028	1,842	814
Labor Day Mini-Mobilization Grant	-	1,700	1,700	-
Fire protection revenue	<u>300,531</u>	<u>257,756</u>	<u>297,327</u>	<u>39,571</u>
Total intergovernmental revenue	<u>2,451,563</u>	<u>2,017,155</u>	<u>2,219,723</u>	<u>202,568</u>
Licenses and permits:				
Franchise licenses	506,837	499,526	504,722	5,196
Liquor licenses	57,950	57,950	100,105	42,155
Building permits	33,899	68,187	69,166	979
Other	<u>48,222</u>	<u>50,458</u>	<u>56,598</u>	<u>6,140</u>
Total licenses and permits	<u>646,908</u>	<u>676,121</u>	<u>730,591</u>	<u>54,470</u>
Fines and penalties	<u>211,730</u>	<u>185,042</u>	<u>187,431</u>	<u>2,389</u>
Charges for services	<u>68,985</u>	<u>80,363</u>	<u>83,494</u>	<u>3,131</u>
Investment income:				
Interest income	29,665	39,510	51,111	11,601
Net change in fair market value	<u>-</u>	<u>-</u>	<u>(36,799)</u>	<u>(36,799)</u>
Total investment income	<u>29,665</u>	<u>39,510</u>	<u>14,312</u>	<u>(25,198)</u>
Donations	<u>51,964</u>	<u>64,320</u>	<u>64,882</u>	<u>562</u>
Other	<u>300,227</u>	<u>250,051</u>	<u>246,702</u>	<u>(3,349)</u>
Total revenues	<u>\$11,970,639</u>	<u>\$11,955,415</u>	<u>12,169,909</u>	<u>\$ 214,494</u>

See Notes to Required Supplementary Information
(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>favorable</u> <u>(unfavorable)</u>
EXPENDITURES				
General government:				
Office of the Mayor and City Council	\$ 32,327	\$ 32,185	\$ 33,441	\$ (1,256)
Office of City Clerk	125,700	125,101	123,608	1,493
Policy and Administration	305,088	276,641	279,616	(2,975)
Total general government	<u>463,115</u>	<u>433,927</u>	<u>436,665</u>	<u>(2,738)</u>
Public safety:				
Police Department				
Police Services Division	1,666,817	1,390,943	1,409,180	(18,237)
Administrative Services Division	257,233	304,904	300,058	4,846
Investigative Division	321,641	265,797	274,432	(8,635)
Support Services Division	664,019	607,227	632,641	(25,414)
Blackhawk Area Task Force Grant	55,663	55,663	55,751	(88)
Fire Department				
Fire Services Division	1,358,865	1,404,859	1,383,311	21,548
Administrative Services Division	168,581	167,884	166,048	1,836
Fire Prevention and Training Division	50,915	50,858	46,285	4,573
Total public safety	<u>4,543,734</u>	<u>4,248,135</u>	<u>4,267,706</u>	<u>(19,571)</u>
Public works and transportation:				
Administrative Division	109,263	101,435	101,176	259
Street Division	981,998	902,751	896,615	6,136
Traffic Division	62,060	53,135	51,665	1,470
City Shop	41,701	49,332	47,242	2,090
City Parks	126,520	114,714	69,044	45,670
Total public works and transportation	<u>1,321,542</u>	<u>1,221,367</u>	<u>1,165,742</u>	<u>55,625</u>
Community development:				
Office of Community Development	<u>379,900</u>	<u>303,655</u>	<u>305,037</u>	<u>(1,382)</u>
Other				
Contribution to police pension plan	969,042	974,420	974,420	-
Contribution to fire pension plan	964,314	969,770	969,770	-
Sterling Planning Commission	41,310	67,837	71,725	(3,888)
Police and Fire Commission	22,075	19,066	16,009	3,057
Non-departmental	2,369,938	2,426,962	2,306,929	120,033
Total other	<u>4,366,679</u>	<u>4,458,055</u>	<u>4,338,853</u>	<u>119,202</u>
Capital outlay	<u>130,745</u>	<u>177,838</u>	<u>171,012</u>	<u>6,826</u>
Total expenditures	<u>\$11,205,715</u>	<u>\$10,842,977</u>	<u>10,685,015</u>	<u>\$ 157,962</u>
Excess of revenues over expenditures			<u>1,484,894</u>	

See Notes to Required Supplementary Information
(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Appropriation</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable
OTHER FINANCING SOURCES (USES)				(unfavorable)
Sale of property	\$ 3,102	\$ 15,317	\$ 15,337	\$ 20
Operating transfers in	30,000	30,000	30,000	-
Operating transfers out	<u>(616,000)</u>	<u>(741,000)</u>	<u>(741,000)</u>	<u>-</u>
	<u>\$ (582,898)</u>	<u>\$ (695,683)</u>	<u>(695,663)</u>	<u>\$ 20</u>
Excess of revenues and other financing sources over expenditures and other financing uses			789,231	
FUND BALANCE, BEGINNING OF YEAR,			<u>5,635,841</u>	
FUND BALANCE, END OF YEAR			<u>\$ 6,425,072</u>	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	Budget		Actual	Variance favorable (unfavorable)
	Original	Final		
REVENUES				
Taxes				
Sales	\$ 1,175,919	\$ 1,263,275	\$ 1,223,582	\$ (39,693)
Charges for service	17,187	20,220	24,795	4,575
Interest	22,514	22,162	25,287	3,125
Net change in fair value of investments	-	-	(10,913)	(10,913)
Donations	-	-	23,981	23,981
Total revenues	\$ 1,215,620	\$ 1,305,657	1,286,732	\$ (18,925)
EXPENDITURES				
General government				
Bank expense	\$ 241	\$ 241	\$ 186	\$ 55
Public works and transportation				
Streets	287,678	479,275	131,012	348,263
Installation of Douglas Park area electric poles	10,000	8,400	8,400	-
Ave G bridge repairs	10,000	10,000	9,275	
Community development				
Lawrence Brothers roof repair	135,000	51,450	51,450	-
Capital outlay				
Fire suppression system for IT	25,000	25,000	36,504	(11,504)
8th & 9th Ave sanitary sewer	-	-	975	(975)
6th Ave - E 2nd & 3rd St/8th Ave - E 2nd St	88,000	88,000	87,003	997
ADA compliance project	109,000	109,000	108,661	339
Police Livescan software	22,500	-	-	-
Police evidence system server	28,000	28,812	26,030	2,782
Public Works building updates	25,000	30,000	27,819	2,181
Public Works sprinkler system	40,000	40,000	-	40,000
Public Works salt dome roof	18,000	-	-	-
Public Works dump truck with plow	130,000	-	-	-
Coliseum parking lot light project	50,000	23,981	23,981	-
Coliseum elevator refurbishment	75,000	-	-	-
Strategic plan projects	75,000	-	-	-
1st Ave/IL40 sidewalk (Urban Outfitters)	24,000	24,000	23,888	112
Wallace St reconstruction	270,000	270,000	269,856	144
Ave J/W 8th St & Ave C core out	46,000	46,000	45,294	706
6th Ave reconstruction	237,000	237,000	236,932	68
Total expenditures	\$ 1,705,419	\$ 1,471,159	1,087,266	\$ 383,168
Excess of revenues over expenditures			199,466	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 316,000	\$ 316,000	316,000	\$ -
	\$ 316,000	\$ 316,000	316,000	\$ -
Excess of revenues and other financing sources over expenditures and other financing uses			515,466	
FUND BALANCE, BEGINNING OF YEAR			2,661,248	
FUND BALANCE, END OF YEAR			\$ 3,176,714	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
2012 CGH MEDICAL CENTER BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>favorable</u> <u>(unfavorable)</u>
REVENUES				
Other	\$ 3,397,236	\$ 3,397,206	\$ 3,397,206	\$ -
Total revenues	<u>\$ 3,397,236</u>	<u>\$ 3,397,206</u>	<u>3,397,206</u>	<u>\$ -</u>
EXPENDITURES				
Other				
Bond expense	\$ 348	\$ 318	\$ 318	\$ -
Debt service				
Principal	2,695,000	2,695,000	2,695,000	-
Interest	<u>701,888</u>	<u>701,888</u>	<u>701,888</u>	<u>-</u>
Total expenditures	<u>\$ 3,397,236</u>	<u>\$ 3,397,206</u>	<u>3,397,206</u>	<u>\$ -</u>
Excess of revenues over expenditures			<u>-</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			-	
FUND BALANCE, BEGINNING OF YEAR			<u>44</u>	
FUND BALANCE, END OF YEAR			<u>\$ 44</u>	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
CBD TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>favorable</u> <u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 316,606	\$ 335,612	\$ 335,612	\$ -
Sales	120,000	120,000	120,000	-
Interest	<u>300</u>	<u>221</u>	<u>244</u>	<u>23</u>
Total revenues	<u>\$ 436,906</u>	<u>\$ 455,833</u>	<u>455,856</u>	<u>\$ 23</u>
EXPENDITURES				
Community development				
Other professional service	\$ -	\$ 2,679	2,679	\$ -
Distribution to developer	55,928	55,928	55,928	-
Miscellaneous	953	951	949	2
Debt service				
Principal	25,000	25,000	25,000	-
Capital outlay	<u>500,000</u>	<u>357,846</u>	<u>313,814</u>	<u>44,032</u>
Total expenditures	<u>\$ 581,881</u>	<u>\$ 442,404</u>	<u>398,370</u>	<u>\$ 44,034</u>
Excess of revenues over expenditures			<u>57,486</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			57,486	
FUND BALANCE, BEGINNING OF YEAR			<u>418,811</u>	
FUND BALANCE, END OF YEAR			<u>\$ 476,297</u>	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
CBD EAST TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	Budget		Actual	Variance favorable (unfavorable)
	Original	Final	Actual	(unfavorable)
REVENUES	\$ -	\$ -	-	\$ -
EXPENDITURES				
Community development				
Other professional service	\$ -	\$ 2,679	2,679	\$ -
Legal service	-	1,669	1,668	1
Miscellaneous	-	2,971	2,971	-
Total expenditures	\$ -	\$ 7,319	7,318	\$ 1
Deficiency of revenues over expenditures			(7,318)	
OTHER FINANCING SOURCES (USES)	\$ -	\$ -	-	\$ -
Deficiency of revenues and other financing sources over expenditures and other financing uses			(7,318)	
FUND BALANCE, BEGINNING OF YEAR			(26,886)	
FUND DEFICIT, END OF YEAR			\$ (34,204)	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
LINCOLNWAY-LYNN TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 165,340	\$ 172,813	\$ 172,813	\$ -
Interest	-	27	27	-
Other	<u>474,788</u>	<u>474,788</u>	<u>474,788</u>	<u>-</u>
Total revenues	<u>\$ 640,128</u>	<u>\$ 647,628</u>	<u>647,628</u>	<u>\$ -</u>
EXPENDITURES				
Community development				
Legal service	\$ 500	\$ 500	-	\$ 500
Reimbursement of developer TIF increment	164,340	171,813	171,813	-
Miscellaneous	1,515	1,486	1,486	-
Debt service				
Principal	225,000	225,000	225,000	-
Interest	<u>249,788</u>	<u>249,788</u>	<u>249,788</u>	<u>-</u>
Total expenditures	<u>\$ 641,143</u>	<u>\$ 648,587</u>	<u>648,087</u>	<u>\$ 500</u>
Deficiency of revenues over expenditures			<u>(459)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(459)	
FUND DEFICIT, BEGINNING OF YEAR			<u>(90,768)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (91,227)</u>	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
ROCK RIVER TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 570,589	\$ 607,877	\$ 607,877	\$ -
Interest	100	140	271	131
Other	<u>6,500</u>	<u>6,500</u>	<u>7,872</u>	<u>1,372</u>
Total revenues	<u>\$ 577,189</u>	<u>\$ 614,517</u>	<u>616,020</u>	<u>\$ 1,503</u>
EXPENDITURES				
Community development				
Other professional service	\$ 5,000	\$ 32,000	22,696	\$ 9,304
Legal service	250,000	250,000	284,684	(34,684)
Bank expense	84,413	84,413	51,117	33,296
Environmental remediation	54,000	66,292	63,188	3,104
Miscellaneous	938	933	933	-
Debt service				
Principal	280,000	280,000	280,000	-
Interest	<u>20,000</u>	<u>20,000</u>	<u>16,684</u>	<u>3,316</u>
Total expenditures	<u>\$ 694,351</u>	<u>\$ 733,638</u>	<u>719,302</u>	<u>\$ 14,336</u>
Deficiency of revenues over expenditures			<u>(103,282)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(103,282)	
FUND DEFICIT, BEGINNING OF YEAR			<u>(2,240,229)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (2,343,511)</u>	

See Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
April 30, 2017

Note 1. Basis of Accounting

Annual budgets are adopted for all governmental funds using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Note 2. Excess of Disbursements Over Appropriations

No major funds had an excess of disbursements over appropriations.

Note 3. Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2016 Contribution Rate

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reports.

Methods and Assumptions Used to Determine 2016 Contribution Rates:

<p>Actuarial Cost Method Amortization Method Remaining Amortization Period</p>	<p>Aggregate Entry Age Normal Level Percentage of Payroll, Closed Non-Taxing bodies: 10-year rolling period. Taxing bodies (Regular, SLEP and ECO groups): 27-year closed period until remaining period reaches 15 years (then 15-year rolling period). Early Retirement Incentive Plan liabilities: a period up to 10 years selected by the Employer upon adoption of ERI. SLEP supplemental liabilities attributable to Public Act 94-712 were financed over 22 years for most employers (two employers were financed over 31 years).</p>
<p>Asset Valuation Method Wage Growth Price Inflation</p>	<p>5-Year smoothed market; 20% corridor 3.50% 2.75% - approximate; No explicit price inflation assumption is used in this valuation.</p>

SUPPLEMENTAL INFORMATION

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING BALANCE SHEET
April 30, 2017

	<u>Special Revenue</u>					
	<u>Motor Fuel Tax Fund</u>	<u>Library Fund</u>	<u>Band Fund</u>	<u>Industrial Development Fund</u>	<u>Municipal Coliseum Fund</u>	<u>IMRF Fund</u>
ASSETS						
Cash	\$ -	\$ 371,179	\$ 661	\$ 100,000	\$ -	\$ -
Investments	66,396	468,542	50	522,505	-	435,644
Receivables (net, where applicable of allowances for uncollectibles)						
Taxes	-	404,069	56,585	-	77,091	225,413
Intergovernmental	33,652	13,691	1,551	-	2,358	-
Accounts	-	-	-	3,227	-	-
Notes	-	-	-	30,101	-	-
Interest	-	3,699	19	19,913	-	2,820
Due from other funds	-	144,359	155,997	230,827	-	86,979
TOTAL ASSETS	<u>\$ 100,048</u>	<u>\$ 1,405,539</u>	<u>\$ 214,863</u>	<u>\$ 906,573</u>	<u>\$ 79,449</u>	<u>\$ 750,856</u>
LIABILITIES						
Accounts payable	\$ 1,736	\$ 14,748	\$ 5,624	\$ 7,489	\$ 11,257	\$ 17,499
Accrued payroll	-	1,921	4,120	-	-	-
Deposits	-	-	-	9,732	-	-
Due to other funds	-	-	-	-	607,467	-
Deferred inflows	-	407,040	56,585	-	77,091	225,413
Total liabilities	<u>1,736</u>	<u>423,709</u>	<u>66,329</u>	<u>17,221</u>	<u>695,815</u>	<u>242,912</u>
FUND BALANCE						
Nonspendable	-	-	-	30,101	-	-
Restricted	98,312	981,830	148,534	859,251	-	507,944
Unassigned	-	-	-	-	(616,366)	-
Total fund balance	<u>98,312</u>	<u>981,830</u>	<u>148,534</u>	<u>889,352</u>	<u>(616,366)</u>	<u>507,944</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 100,048</u>	<u>\$ 1,405,539</u>	<u>\$ 214,863</u>	<u>\$ 906,573</u>	<u>\$ 79,449</u>	<u>\$ 750,856</u>

Special Revenue					Debt Service	Capital Project		
Social Security Fund	Civil Defense Fund	IGIG Grant Fund	Mud to Parks Grant Fund	Blight Reduction Program Grant Fund	Special Service Area Fund	NWSW Redevelopment Fund	Total	
\$ 19,478	\$ 2,915	\$ -	\$ -	\$ -	\$ 35,125	\$ 21,127	\$ 550,485	
-	6,966	-	-	-	-	-	1,500,103	
211,383	10,330	-	-	-	-	-	984,871	
651	551	267,387	-	110,162	-	-	430,003	
-	-	-	-	-	-	-	3,227	
-	-	-	-	-	-	-	30,101	
21	15	-	-	-	4	2	26,493	
151,954	91,227	-	-	-	-	-	861,343	
<u>\$ 383,487</u>	<u>\$ 112,004</u>	<u>\$ 267,387</u>	<u>\$ -</u>	<u>\$ 110,162</u>	<u>\$ 35,129</u>	<u>\$ 21,129</u>	<u>\$ 4,386,626</u>	
\$ 486	\$ 411	\$ 31,496	\$ -	\$ 1,176	\$ -	\$ -	91,922	
-	-	-	-	-	-	-	6,041	
-	-	-	-	-	-	7,500	17,232	
-	-	254,257	-	108,986	-	-	970,710	
211,383	10,330	-	-	-	-	-	987,842	
211,869	10,741	285,753	-	110,162	-	7,500	2,073,747	
-	-	-	-	-	-	-	30,101	
171,618	101,263	-	-	-	-	-	2,868,752	
-	-	(18,366)	-	-	35,129	13,629	(585,974)	
171,618	101,263	(18,366)	-	-	35,129	13,629	2,312,879	
<u>\$ 383,487</u>	<u>\$ 112,004</u>	<u>\$ 267,387</u>	<u>\$ -</u>	<u>\$ 110,162</u>	<u>\$ 35,129</u>	<u>\$ 21,129</u>	<u>\$ 4,386,626</u>	

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended April 30, 2017

	Special Revenue					
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund
REVENUES						
Taxes	\$ -	\$ 407,037	\$ 56,546	\$ -	\$ 77,456	\$ 223,232
Intergovernmental	389,576	100,891	10,086	-	15,338	5,050
Charges for services	-	20,553	2,475	122,602	21,056	-
Interest	943	14,901	125	4,176	-	12,293
Net change in fair value of investments	-	(9,782)	-	-	-	(8,208)
Donations	-	29,007	34,181	-	-	-
Other	-	23,996	-	70	-	62,550
Total revenues	<u>390,519</u>	<u>586,603</u>	<u>103,413</u>	<u>126,848</u>	<u>113,850</u>	<u>294,917</u>
EXPENDITURES						
Current						
General government	-	-	-	-	175,047	251,340
Public safety	-	-	-	-	-	-
Public works and transportation	209,725	-	-	-	-	-
Community development	-	-	-	151,123	-	-
Culture and recreation	-	522,966	90,461	-	-	-
Debt service						
Principal	206,656	-	-	-	115,000	-
Interest	6,000	-	-	-	151,735	-
Capital outlay	-	6,624	-	-	-	-
Total expenditures	<u>422,381</u>	<u>529,590</u>	<u>90,461</u>	<u>151,123</u>	<u>441,782</u>	<u>251,340</u>
Excess (deficiency) of revenues over expenditures	<u>(31,862)</u>	<u>57,013</u>	<u>12,952</u>	<u>(24,275)</u>	<u>(327,932)</u>	<u>43,577</u>
OTHER FINANCING SOURCES (USES)						
Sale of property	-	2,692	-	198,090	-	-
Operating transfer in	-	-	-	-	425,000	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>2,692</u>	<u>-</u>	<u>198,090</u>	<u>425,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(31,862)</u>	<u>59,705</u>	<u>12,952</u>	<u>173,815</u>	<u>97,068</u>	<u>43,577</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>130,174</u>	<u>922,125</u>	<u>135,582</u>	<u>715,537</u>	<u>(713,434)</u>	<u>464,367</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 98,312</u>	<u>\$ 981,830</u>	<u>\$ 148,534</u>	<u>\$ 889,352</u>	<u>\$ (616,366)</u>	<u>\$ 507,944</u>

Special Revenue					Debt Service	Capital Project	
Social Security Fund	Civil Defense Fund	IGIG Grant Fund	Mud to Parks Grant Fund	Blight Reduction Program Grant Fund	Special Service Area Fund	NWSW Redevelopment Fund	Total
\$ 209,291	\$ 10,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 983,941
4,237	3,581	1,219,066	487,461	155,382	-	-	2,390,668
-	-	-	-	-	-	96,732	263,418
167	184	-	-	-	26	4	32,819
-	(85)	-	-	-	-	-	(18,075)
-	-	-	-	-	-	100,000	163,188
46,000	-	-	-	1,083	2,025	-	135,724
<u>259,695</u>	<u>14,059</u>	<u>1,219,066</u>	<u>487,461</u>	<u>156,465</u>	<u>2,051</u>	<u>196,736</u>	<u>3,951,683</u>
237,652	-	-	-	-	-	-	664,039
-	10,111	-	-	-	-	-	10,111
-	-	-	-	-	-	-	209,725
-	-	643,885	-	156,465	-	7,504	958,977
-	-	-	-	-	-	-	613,427
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	321,656
-	-	-	-	-	-	-	157,735
-	-	-	-	-	-	67,468	74,092
<u>237,652</u>	<u>10,111</u>	<u>643,885</u>	<u>-</u>	<u>156,465</u>	<u>-</u>	<u>74,972</u>	<u>3,009,762</u>
<u>22,043</u>	<u>3,948</u>	<u>575,181</u>	<u>487,461</u>	<u>-</u>	<u>2,051</u>	<u>121,764</u>	<u>941,921</u>
-	-	-	-	-	-	-	200,782
-	-	-	-	-	-	-	425,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	625,782
<u>22,043</u>	<u>3,948</u>	<u>575,181</u>	<u>487,461</u>	<u>-</u>	<u>2,051</u>	<u>121,764</u>	<u>1,567,703</u>
<u>149,575</u>	<u>97,315</u>	<u>(593,547)</u>	<u>(487,461)</u>	<u>-</u>	<u>33,078</u>	<u>(108,135)</u>	<u>745,176</u>
<u>\$ 171,618</u>	<u>\$ 101,263</u>	<u>\$ (18,366)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,129</u>	<u>\$ 13,629</u>	<u>\$ 2,312,879</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
April 30, 2017

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Totals
ASSETS			
Cash	\$ -	\$ 81,704	\$ 81,704
Accrued interest receivable	31,594	25,568	57,162
Investments, at fair value	13,557,013	12,024,235	25,581,248
Due from other funds	-	30,273	30,273
TOTAL ASSETS	13,588,607	12,161,780	25,750,387
LIABILITIES			
Accounts payable	1,484	-	1,484
Due to other funds	30,273	-	30,273
TOTAL LIABILITIES	31,757	-	31,757
NET POSITION	\$ 13,556,850	\$ 12,161,780	\$ 25,718,630

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
Year Ended April 30, 2017

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Total
ADDITIONS			
Contributions			
Employer	\$ 997,120	\$ 998,670	\$ 1,995,790
Plan members	150,950	107,617	258,567
Total contributions	<u>1,148,070</u>	<u>1,106,287</u>	<u>2,254,357</u>
Investment income			
Interest earned	242,976	243,851	486,827
Net change in fair value	976,751	843,675	1,820,426
Total investment income	1,219,727	1,087,526	2,307,253
Less: investment expense	(30,621)	(37,081)	(67,702)
Net investment income	<u>1,189,106</u>	<u>1,050,445</u>	<u>2,239,551</u>
Other revenue	100	-	100
Total additions	<u>2,337,276</u>	<u>2,156,732</u>	<u>4,494,008</u>
DEDUCTIONS			
Administrative	28,222	19,442	47,664
Benefits	1,271,142	1,420,210	2,691,352
Total deductions	<u>1,299,364</u>	<u>1,439,652</u>	<u>2,739,016</u>
CHANGE IN NET POSITION	<u>1,037,912</u>	<u>717,080</u>	<u>1,754,992</u>
NET POSITION, BEGINNING OF YEAR	<u>12,518,938</u>	<u>11,444,700</u>	<u>23,963,638</u>
NET POSITION, END OF YEAR	<u>\$ 13,556,850</u>	<u>\$ 12,161,780</u>	<u>\$ 25,718,630</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
April 30, 2017

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 45,194,546	\$ 29,603	\$ 45,224,149
Patient accounts receivable, less allowance for uncollectible accounts of \$12,935,104	32,823,505	-	32,823,505
Other receivables	1,328,651	-	1,328,651
Estimated third-party payor settlements receivable	1,546,705	-	1,546,705
Due from beneficial interest	266,204	-	266,204
Inventories	3,854,363	-	3,854,363
Accrued interest receivable	241,072	-	241,072
Prepaid expenses	2,588,847	-	2,588,847
Total current assets	<u>87,843,893</u>	<u>29,603</u>	<u>87,873,496</u>
Other assets			
Investments	51,250,014	-	51,250,014
Assets limited as to use	5,800,091	-	5,800,091
Capital assets, net	68,785,245	-	68,785,245
Other assets	968,899	-	968,899
Beneficial interest in affiliates	4,811,140	-	4,811,140
Total other assets	<u>131,615,389</u>	<u>-</u>	<u>131,615,389</u>
Deferred outflows of resources			
Pension related deferred outflows	8,951,274	-	8,951,274
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>228,410,556</u>	<u>29,603</u>	<u>228,440,159</u>
LIABILITIES			
Current liabilities			
Accounts payable	4,082,119	-	4,082,119
Accrued salaries, wages, and benefits	11,093,679	-	11,093,679
Accrued malpractice	1,331,597	-	1,331,597
Current maturities of notes payable	-	-	-
Current maturities of bonds payable	2,750,000	-	2,750,000
Estimated third-party payor settlements payable	9,711,257	-	9,711,257
Other current liabilities	3,838,830	-	3,838,830
Total current liabilities	<u>32,807,482</u>	<u>-</u>	<u>32,807,482</u>
Long-term liabilities			
Bonds payable, less current maturities and net of unamortized premium of \$1,000,615	16,350,615	-	16,350,615
Net pension liability	59,092,817	-	59,092,817
Total noncurrent liabilities	<u>75,443,432</u>	<u>-</u>	<u>75,443,432</u>
Total liabilities	<u>108,250,914</u>	<u>-</u>	<u>108,250,914</u>
Deferred inflows of resources			
Pension related deferred inflows	3,267,884	-	3,267,884
NET POSITION			
Net investment in capital assets	49,684,630	-	49,684,630
Restricted for:			
Health development	5,800,091	-	5,800,091
Unrestricted	61,407,037	29,603	61,436,640
Total net position	<u>\$ 116,891,758</u>	<u>\$ 29,603</u>	<u>\$ 116,921,361</u>

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - COMPONENT UNITS
Year Ended April 30, 2017

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
OPERATING REVENUE			
Net patient service revenue	\$ 211,501,930	\$ -	\$ 211,501,930
Other revenue	2,883,543	20,460	2,904,003
Total operating revenue	<u>214,385,473</u>	<u>20,460</u>	<u>214,405,933</u>
OPERATING EXPENSES			
Salaries and wages	92,025,786	-	92,025,786
Employee benefits	22,530,899	-	22,530,899
Pension expense	9,680,207	-	9,680,207
Medical fees	9,966,191	-	9,966,191
Patient service supplies	34,810,952	-	34,810,952
Utilities	2,068,451	-	2,068,451
Purchased services	5,551,823	-	5,551,823
Repairs and replacements	7,492,613	15,291	7,507,904
Depreciation and amortization	11,748,904	-	11,748,904
Insurance	2,038,806	-	2,038,806
Rental expense	902,396	-	902,396
Other	6,876,775	6,792	6,883,567
Total operating expenses	<u>205,693,803</u>	<u>22,083</u>	<u>205,715,886</u>
Income from operations	<u>8,691,670</u>	<u>(1,623)</u>	<u>8,690,047</u>
NONOPERATING REVENUES (EXPENSES)			
Contributions received (paid), net	(335,392)	-	(335,392)
Interest income	1,742,533	43	1,742,576
Interest expense	(540,344)	-	(540,344)
Loss on disposal of capital assets	(120,224)	-	(120,224)
Change in beneficial interest in affiliates	(369,389)	-	(369,389)
Total nonoperating revenues (expenses)	<u>377,184</u>	<u>43</u>	<u>377,227</u>
Change in net position, before income taxes	<u>9,068,854</u>	<u>(1,580)</u>	<u>9,067,274</u>
PROVISION FOR INCOME TAXES	<u>157,038</u>	<u>-</u>	<u>157,038</u>
Change in net position	8,911,816	(1,580)	8,910,236
NET POSITION, BEGINNING OF YEAR	<u>107,979,942</u>	<u>31,183</u>	<u>108,011,125</u>
NET POSITION, END OF YEAR	<u>\$ 116,891,758</u>	<u>\$ 29,603</u>	<u>\$ 116,921,361</u>



INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined City of Sterling, Illinois' (the "City") compliance with the provisions of subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act (Illinois Public Act 85-1142) during the year ended April 30, 2017. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, City of Sterling, Illinois, complied, in all material respects, with the aforementioned requirements for the year ended April 30, 2017.

This report is intended solely for the information and use of management, the City Council, others within the City, the Illinois State Comptroller's Office and the joint review boards and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Rockford, Illinois
September 27, 2017

