

**CITY OF STERLING, ILLINOIS**

---

**BASIC FINANCIAL STATEMENTS**

**April 30, 2007**

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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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sterling, Illinois (City), as of and for the year ended April 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sterling, Illinois' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the CGH Medical Center, (Discretely Presented Component Unit) which represent 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the CGH Medical Center, a (Discretely Presented Component Unit), is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. The financial statements of the CGH Medical Center, a (Discretely Presented Component Unit) of the City, were not audited in accordance with Government Auditing Standards.

In our opinion, based on our audit and the reports 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of April 30, 2007, and the respective changes in financial position and cash flows where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Schedule of Funding Progress on page 58 and budgetary comparison on pages 59 through 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion of it. The City of Sterling, Illinois has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not be part of the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Sterling, Illinois. This information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Linda J. Callahan, Van Osdel & Co., P.C.*

Rockford, Illinois  
September 17, 2007

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER INANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the City of Sterling, Illinois as of and for the year ended April 30, 2007, and have issued our report thereon dated September 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Sterling, Illinois' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sterling, Illinois' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sterling, Illinois's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described on the next page to be significant deficiencies in internal control over financial reporting.

### Inadequate Segregation of Duties

The City has incomplete segregation of duties. A good system of internal control involves segregation of duties so that no one individual can handle a transaction from its inception to its completion. Complete segregation of duties would require segregating responsibility for the initiation, approval and recording of all accounting transactions. During our audit, we noted that adjusting journal entries are initiated and recorded by one individual. While the City's size may preclude complete segregation of duties, you should be aware of this situation.

### Inadequate Control of Check Stock

The City has not established complete control over blank check stock. A good system of internal control will provide controlled access to blank check stock. During the audit, we observed that the City's check stock was not locked in a secure location. Access to unused check stock should be strictly controlled and unused checks should be locked in a safe location.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sterling, Illinois' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lindgren, Callahan, Van Osdol & Co., Ltd.*

Rockford, Illinois  
September 17, 2007

## **BASIC FINANCIAL STATEMENTS**

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF NET ASSETS**  
April 30, 2007

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business - type Activities</u>	<u>Total</u>	
<b>ASSETS</b>				
Cash	\$ 926,944	\$ 73,361	\$ 1,000,305	\$ 4,383,926
Restricted cash	-	17,921	17,921	-
Investments	8,125,839	1,237,938	9,363,777	-
Taxes receivable	3,308,357	-	3,308,357	-
Intergovernmental receivables	1,375,276	13,646	1,388,922	-
Accounts receivable (net of allowance for uncollectibles)	117,767	189,075	306,842	13,883,379
Notes receivable (net of allowance for uncollectibles)	43,870	-	43,870	-
Interest receivable	37,697	5,243	42,940	227,531
Other receivables	-	-	-	1,632,418
Estimated third-party payor settlements	-	-	-	2,494,998
Due from unconsolidated investees	-	-	-	81,825
Inventories	41,867	-	41,867	1,735,124
Internal balances	-	1,100,000	1,100,000	-
Due from external parties	152,281	-	152,281	-
Prepaid expenses	-	-	-	1,313,553
Other assets	73,777	-	73,777	-
Capital assets:				
Land and construction in progress	2,037,098	153,866	2,190,964	-
Infrastructure, net	5,205,178	-	5,205,178	-
Other capital assets, net	3,469,120	9,597,799	13,066,919	60,083,555
Assets limited as to use	-	-	-	32,584,257
Unamortized bond issue costs	-	-	-	230,739
Investment in real estate	-	-	-	1,800,897
Net equity in unconsolidated investees	-	-	-	3,314,405
Net equity in component units	-	-	-	3,095,970
<b>Total assets</b>	<u>24,915,071</u>	<u>12,388,849</u>	<u>37,303,920</u>	<u>126,862,577</u>
<b>LIABILITIES</b>				
Accounts payable	325,560	144,504	470,064	2,919,559
Claims payable	99,697	-	99,697	-
Accrued payroll	84,836	6,599	91,435	-
Accrued interest	110,927	14,181	125,108	-
Deposits	15,487	-	15,487	-
Internal balances	1,252,281	-	1,252,281	-
Deferred revenue	3,358,057	-	3,358,057	-
Estimated third-party payor settlements	-	-	-	-
Other current liabilities	-	-	-	7,496,752
Accrued compensated absences	359,249	26,448	385,697	-
Net pension obligation	60,460	-	60,460	-
Long-term liabilities:				
Due within one year	718,772	198,346	917,118	302,573
Due in more than one year	9,686,618	2,204,446	11,891,064	25,166,904
<b>Total liabilities</b>	<u>16,071,944</u>	<u>2,594,524</u>	<u>18,666,468</u>	<u>35,885,788</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	8,863,763	7,348,873	16,212,636	46,129,996
Restricted for:				
Special revenue	1,380,884	-	1,380,884	-
Debt service	64,110	-	64,110	2,408,326
Capital repairs and replacements	-	-	-	27,478,510
Health development	-	-	-	2,697,421
Capital projects	69,043	-	69,043	-
Unrestricted	(1,534,673)	2,445,452	910,779	12,262,536
<b>Total net assets</b>	<u>\$ 8,843,127</u>	<u>\$ 9,794,325</u>	<u>\$ 18,637,452</u>	<u>\$ 90,976,789</u>

See Notes to Financial Statements.

CITY OF STERLING, ILLINOIS  
STATEMENT OF ACTIVITIES  
Year Ended April 30, 2007

FUNCTIONS/PROGRAMS	Net (Expense) Revenue and Change in Net Assets						Component Unit
	Program Revenues		Primary Government			Total	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		
<b>Primary government</b>							
Governmental activities:							
General government	\$ 2,198,063	\$ 1,169,814	\$ -	\$ -	\$ (1,028,249)	\$ -	\$ (1,028,249)
Public safety	4,022,121	262,717	100,738	11,317	(3,647,349)	-	(3,647,349)
Public works and transportation	2,351,172	-	-	249,998	(2,101,174)	-	(2,101,174)
Community development	738,538	80,733	154,613	-	(503,192)	-	(503,192)
Culture and recreation	567,182	24,384	85,357	10,000	(447,441)	-	(447,441)
Other	1,385,241	-	10,000	-	(1,375,241)	-	(1,375,241)
Interest on long-term debt	476,716	-	-	-	(476,716)	-	(476,716)
Total governmental activities	<u>11,739,033</u>	<u>1,537,648</u>	<u>350,708</u>	<u>271,315</u>	<u>(9,579,362)</u>	<u>-</u>	<u>(9,579,362)</u>
<b>Business-type activities:</b>							
Sewer	1,445,458	1,546,311	-	-	-	100,853	100,853
Solid waste	536,542	375,443	-	-	-	(161,099)	(161,099)
Total business-type activities	<u>1,982,000</u>	<u>1,921,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,246)</u>	<u>(60,246)</u>
Total primary government	<u>\$ 13,721,033</u>	<u>\$ 3,459,402</u>	<u>\$ 350,708</u>	<u>\$ 271,315</u>	<u>\$ (9,579,362)</u>	<u>\$ (60,246)</u>	<u>\$ (9,639,608)</u>
Component unit							
CGH Medical Center	\$ 101,504,483	\$ 99,723,630	\$ -	\$ 283,437			\$ (1,497,416)
<b>General Revenues:</b>							
Property taxes, levied for general purposes					3,070,652		3,070,652
Sales tax					4,785,129		4,785,129
Personal property replacement tax					478,081	70,880	548,961
Income tax and surcharge					1,345,162		1,345,162
Fire protection revenue					175,257		175,257
Motor fuel tax					457,485		457,485
Investment income					587,497	66,710	654,207
Increase in net equity in unconsolidated investees					-		2,023,073
Other					1,230,619	3,920	961,796
Special item - gain (loss) on disposal of asset					24,995	860	1,234,539
Transfers - internal activity					25,000	(25,000)	4,873,347
Total general revenues and transfers					<u>12,179,877</u>	<u>117,370</u>	<u>7,848,932</u>
Change in net assets					2,600,515	57,124	6,351,516
<b>NET ASSETS, BEGINNING OF YEAR</b>					<u>6,242,612</u>	<u>9,737,201</u>	<u>15,979,813</u>
<b>NET ASSETS, END OF YEAR</b>					<u>\$ 8,843,127</u>	<u>\$ 9,794,325</u>	<u>\$ 18,637,452</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**April 30, 2007**

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Motor Fuel Tax Fund	Other Governmenta Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 157,409	\$ -	\$ -	\$ 39,718	\$ 704,544	\$ 901,671
Investments	5,421,925	472,085	489,843	146,956	1,595,030	8,125,839
Receivables						
Taxes	1,764,696	351,285	273,768	-	918,608	3,308,357
Intergovernmental	1,262,263	26,184	22,863	37,464	26,502	1,375,276
Accounts receivable	41,137	74,645	-	-	1,985	117,767
Notes	-	-	-	-	43,870	43,870
Interest	22,589	-	649	-	14,459	37,697
Inventories	41,867	-	-	-	-	41,867
Due from other funds	647,870	-	-	331,325	402,500	1,381,695
<b>TOTAL ASSETS</b>	<b>\$ 9,359,756</b>	<b>\$ 924,199</b>	<b>\$ 787,123</b>	<b>\$ 555,463</b>	<b>\$ 3,707,498</b>	<b>\$ 15,334,039</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 141,806	\$ 65,282	\$ 5	\$ 93,358	\$ 25,109	\$ 325,560
Accrued payroll	75,139	-	-	-	9,697	84,836
Deposits	4,200	-	-	-	11,287	15,487
Due to other funds	-	1,297,870	1,031,544	-	-	2,329,414
Deferred revenue	1,814,396	351,285	273,768	-	918,608	3,358,057
Total liabilities	2,035,541	1,714,437	1,305,317	93,358	964,701	6,113,354
<b>FUND EQUITY</b>						
Fund balance						
Reserved	41,867	-	-	-	402,500	444,367
Unreserved						
General	7,282,348	-	-	-	-	7,282,348
Special revenue	-	(790,238)	(518,194)	462,105	2,207,144	1,360,817
Debt service	-	-	-	-	64,110	64,110
Capital projects	-	-	-	-	69,043	69,043
Total fund equity	7,324,215	(790,238)	(518,194)	462,105	2,742,797	9,220,685
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 9,359,756</b>	<b>\$ 924,199</b>	<b>\$ 787,123</b>	<b>\$ 555,463</b>	<b>\$ 3,707,498</b>	<b>\$ 15,334,039</b>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**Year Ended April 30, 2007**

Total governmental fund balances		\$ 9,220,685
Amounts reported for governmental activities in the statement of net assets 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 \$2,986,383		10,711,396
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(5,005,000)
Tax increment bonds payable		(4,145,000)
Special service area bonds payable		(534,757)
Notes payable		(367,633)
Redevelopment agreements payable		(353,000)
Net pension obligation		(60,460)
Compensated absences		(359,249)
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.		(110,927)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$92,221 and accumulated amortization is \$18,444.		73,777
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 assets:		
Assets	\$ 25,273	
Liabilities	<u>(251,978)</u>	<u>(226,705)</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 8,843,127</u></b>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**Year Ended April 30, 2007**

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Motor Fuel Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 6,225,206	\$ 385,007	\$ 399,782	\$ -	\$ 845,786	\$ 7,855,781
Intergovernmental	1,963,235	116,113	-	457,485	163,752	2,700,585
Licenses and permits	728,321	-	-	-	-	728,321
Fines and penalties	262,717	-	-	-	-	262,717
Charges for services	59,351	-	-	-	134,390	193,741
Investment income	363,603	16,466	30,915	36,924	114,373	562,281
Donations	318,158	-	-	-	59,267	377,425
Other	464,700	-	-	550,164	215,755	1,230,619
Total revenues	<u>10,385,291</u>	<u>517,586</u>	<u>430,697</u>	<u>1,044,573</u>	<u>1,533,323</u>	<u>13,911,470</u>
<b>EXPENDITURES</b>						
Current						
General government	437,766	-	-	-	492,148	929,914
Public safety	3,873,832	-	-	-	20,997	3,894,829
Public works and transportation	1,875,009	-	-	275,292	59,410	2,209,711
Community development	228,719	326,878	2,565	-	168,937	727,099
Culture and recreation	-	-	-	-	589,105	589,105
Other	2,277,855	-	-	-	-	2,277,855
Debt service						
Principal	60,184	150,000	365,000	105,000	214,581	894,765
Interest	2,756	223,286	108,575	49,470	93,103	477,190
Capital outlay	1,091,238	-	-	768,000	145,182	2,004,420
Total expenditures	<u>9,847,359</u>	<u>700,164</u>	<u>476,140</u>	<u>1,197,762</u>	<u>1,783,463</u>	<u>14,004,888</u>
Excess (deficiency) of revenues over expenditures	<u>537,932</u>	<u>(182,578)</u>	<u>(45,443)</u>	<u>(153,189)</u>	<u>(250,140)</u>	<u>(93,418)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond/loan proceeds	274,940	-	-	-	30,014	304,954
Sale of property	22,173	-	-	-	2,822	24,995
Operating transfers in	25,000	134,215	70,609	-	40,000	269,824
Operating transfers out	(190,215)	(54,609)	-	-	-	(244,824)
Total other financing sources (uses)	<u>131,898</u>	<u>79,606</u>	<u>70,609</u>	<u>-</u>	<u>72,836</u>	<u>354,949</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	669,830	(102,972)	25,166	(153,189)	(177,304)	261,531
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>						
	<u>6,654,385</u>	<u>(687,266)</u>	<u>(543,360)</u>	<u>615,294</u>	<u>2,920,101</u>	<u>8,959,154</u>
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<u>\$ 7,324,215</u>	<u>\$ (790,238)</u>	<u>\$ (518,194)</u>	<u>\$ 462,105</u>	<u>\$ 2,742,797</u>	<u>\$ 9,220,685</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended April 30, 2007**

Net change in fund balances - total governmental funds \$ 261,531

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

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.

1,565,622

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 Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Issuances	\$ (304,954)	
Payments	894,765	
Change in compensated absences	(37,791)	
Change in net pension obligation	151,847	
Accrued interest	474	704,341

Governmental funds report the effect of issuance costs and discounts as expenditures when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

(9,222)

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 Assets		78,243
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**Change in net assets of governmental activities \$ 2,600,515**

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**April 30, 2007**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>				
Current assets				
Cash	\$ 26,798	\$ 46,563	\$ 73,361	\$ 25,273
Restricted cash	17,921	-	17,921	-
Investments	997,470	240,468	1,237,938	-
Intergovernmental receivable	-	13,646	13,646	-
Accounts receivable (net of allowance for doubtful accounts of \$57,000 for Sewer and \$9,000 for Solid Waste)	154,581	34,494	189,075	-
Accrued interest	4,361	882	5,243	-
Due from other funds	1,100,000	-	1,100,000	-
Total current assets	<u>2,301,131</u>	<u>336,053</u>	<u>2,637,184</u>	<u>25,273</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	6,735,302	-	6,735,302	-
Inceptors	1,563,440	-	1,563,440	-
Storm sewers	5,000,601	-	5,000,601	-
Separation work	3,676,298	-	3,676,298	-
Construction in progress	5,268	-	5,268	-
	<u>17,129,507</u>	<u>-</u>	<u>17,129,507</u>	<u>-</u>
Accumulated depreciation	7,377,842	-	7,377,842	-
Total capital assets (net of accumulated depreciation)	<u>9,751,665</u>	<u>-</u>	<u>9,751,665</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>12,052,796</u>	<u>336,053</u>	<u>12,388,849</u>	<u>25,273</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	59,746	84,758	144,504	-
Claims payable	-	-	-	99,697
Accrued payroll	6,195	404	6,599	-
Accrued vacation	22,185	4,263	26,448	-
Accrued interest	14,181	-	14,181	-
Due to other funds	-	-	-	152,281
Current portion of notes payable	198,346	-	198,346	-
Total current liabilities	<u>300,653</u>	<u>89,425</u>	<u>390,078</u>	<u>251,978</u>
Noncurrent liabilities				
Notes payable (net of current portion)	2,204,446	-	2,204,446	-
Total noncurrent liabilities	<u>2,204,446</u>	<u>-</u>	<u>2,204,446</u>	<u>-</u>
Total liabilities	<u>2,505,099</u>	<u>89,425</u>	<u>2,594,524</u>	<u>251,978</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,348,873	-	7,348,873	-
Unrestricted	2,198,824	246,628	2,445,452	(226,705)
Total net assets	<u>\$ 9,547,697</u>	<u>\$ 246,628</u>	<u>\$ 9,794,325</u>	<u>\$ (226,705)</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS (DEFICIT) - PROPRIETARY FUND TYPES**  
**Year Ended April 30, 2007**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities -</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUE</b>				
Sewer use and hook-up fees	\$ 1,546,311	\$ -	\$ 1,546,311	\$ -
Solid waste service fees	-	375,443	375,443	-
Employer contributions	-	-	-	1,159,223
Employee contributions	-	-	-	227,917
Other revenue	3,920	-	3,920	-
Total operating revenue	<u>1,550,231</u>	<u>375,443</u>	<u>1,925,674</u>	<u>1,387,140</u>
<b>OPERATING EXPENSES</b>				
Administration	-	-	-	195,679
Life insurance premiums	-	-	-	9,880
Waste water treatment plant	575,663	-	575,663	-
Solid waste disposal	-	536,542	536,542	-
Maintenance	11,938	-	11,938	-
Billing and collection	176,596	-	176,596	-
Non-departmental	267,743	-	267,743	-
Benefit payments	-	-	-	1,128,554
Depreciation	345,216	-	345,216	-
Total operating expenses	<u>1,377,156</u>	<u>536,542</u>	<u>1,913,698</u>	<u>1,334,113</u>
Operating income (loss)	<u>173,075</u>	<u>(161,099)</u>	<u>11,976</u>	<u>53,027</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	70,880	70,880	-
Interest income	38,673	9,796	48,469	27,222
Net change in fair value of investments	15,822	2,419	18,241	(2,006)
Interest expense	(68,302)	-	(68,302)	-
Total nonoperating revenues (expenses)	<u>(13,807)</u>	<u>83,095</u>	<u>69,288</u>	<u>25,216</u>
Net income (loss) before other financing sources (uses)	<u>159,268</u>	<u>(78,004)</u>	<u>81,264</u>	<u>78,243</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	860	860	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>860</u>	<u>(24,140)</u>	<u>-</u>
Net income (loss)	134,268	(77,144)	57,124	78,243
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>9,413,429</u>	<u>323,772</u>	<u>9,737,201</u>	<u>(304,948)</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ 9,547,697</u>	<u>\$ 246,628</u>	<u>\$ 9,794,325</u>	<u>\$ (226,705)</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
Year Ended April 30, 2007

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 1,387,140
Receipts from customers	1,573,658	383,999	1,957,657	-
Payments to employees	(401,030)	(43,669)	(444,699)	-
Payments to suppliers	(468,512)	(438,060)	(906,572)	-
Payments for premiums, claims, and related services	(198,593)	-	(198,593)	(1,372,630)
Payments from (to) other funds	430,508	14,749	445,257	(663,294)
Net cash provided by (used in) operating activities	<u>936,031</u>	<u>(82,981)</u>	<u>853,050</u>	<u>(648,784)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State replacement tax	-	65,347	65,347	-
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash used in non-capital financing activities	<u>(25,000)</u>	<u>65,347</u>	<u>40,347</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Proceeds from the issuance of debt	132,007	-	132,007	-
Principal paid on notes payable	(160,603)	-	(160,603)	-
Interest paid on notes payable	(67,790)	-	(67,790)	-
Capital assets acquired	(237,841)	-	(237,841)	-
Proceeds from the sale of capital assets	-	860	860	-
Net cash provided by (used in) capital financing activities	<u>(334,227)</u>	<u>860</u>	<u>(333,367)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(598,300)	(159,999)	(758,299)	-
Proceeds from the sale of investments	-	-	-	627,642
Interest received	34,903	9,396	44,299	29,258
Net cash provided by (used in) investing activities	<u>(563,397)</u>	<u>(150,603)</u>	<u>(714,000)</u>	<u>656,900</u>
<b>NET CHANGE IN CASH</b>	<b>13,407</b>	<b>(167,377)</b>	<b>(153,970)</b>	<b>8,116</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>31,312</b>	<b>213,940</b>	<b>245,252</b>	<b>17,157</b>
<b>CASH, END OF YEAR</b>	<b><u>\$ 44,719</u></b>	<b><u>\$ 46,563</u></b>	<b><u>\$ 91,282</u></b>	<b><u>\$ 25,273</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>				
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 173,075	\$ (161,099)	\$ 11,976	\$ 53,027
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	345,216	-	345,216	-
Effects of changes in operating assets and liabilities				
Accounts receivable	23,427	8,556	31,983	-
Due from other funds	430,508	14,749	445,257	-
Accounts payable	(45,651)	50,604	4,953	-
Claims payable	-	-	-	(38,517)
Accrued payroll	113	(54)	59	-
Compensated absences	9,343	4,263	13,606	-
Due to other funds	-	-	-	(663,294)
	<u>\$ 936,031</u>	<u>\$ (82,981)</u>	<u>\$ 853,050</u>	<u>\$ (648,784)</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**April 30, 2007**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash	\$      30,040	\$      2,516
Intergovernmental receivable	5,544	-
Accrued interest receivable	48,367	-
Investments, at fair value	<u>         21,911,440</u>	<u>                  -</u>
 <b>TOTAL ASSETS</b>	 <u>         21,995,391</u>	 <u>                  2,516</u>
 <b>LIABILITIES</b>	 <u>                  -</u>	 <u>                  -</u>
 <b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	 <u>         21,995,391</u>	 <u>                  2,516</u>

See Notes to Financial Statements.

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended April 30, 2007**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 600,043	\$ -
Plan members	<u>258,536</u>	<u>-</u>
Total contributions	<u>858,579</u>	<u>-</u>
Investment income		
Interest earned	647,084	12
Net change in fair value	<u>1,165,996</u>	<u>-</u>
Total investment income	<u>1,813,080</u>	<u>12</u>
Other revenue	<u>242</u>	<u>-</u>
Total other revenue	<u>242</u>	<u>-</u>
Total additions	<u>2,671,901</u>	<u>12</u>
<b>DEDUCTIONS</b>		
Administrative	57,867	-
Benefits	<u>1,110,589</u>	<u>-</u>
Total deductions	<u>1,168,456</u>	<u>-</u>
<b>NET INCREASE</b>	1,503,445	12
<b>NET ASSETS HELD IN TRUST, BEGINNING OF YEAR</b>	<u>20,491,946</u>	<u>2,504</u>
<b>NET ASSETS HELD IN TRUST, END OF YEAR</b>	<u>\$ 21,995,391</u>	<u>\$ 2,516</u>

See Notes to Financial Statements.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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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 unit. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was based upon the significance of its 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 unit, CGH Medical Center (Medical Center).

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.

**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.

In the government-wide Statement of Net Assets, 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 assets are reported

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

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

in three parts - invested in capital assets, net of related debt; 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, liabilities, reserves, fund equity, 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 Statement No. 34 sets 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 electively added 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.

The following fund types are used by the City:

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

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

**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 assets, 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 charges; or (b) where the governing body has decided that periodic determination or

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

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

**Enterprise Funds (Continued)**

revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds*, the City has chosen to apply all GASB pronouncements as well as those FASB pronouncements issued on or before November 30, 1989, to account for proprietary funds.

The City maintains two enterprise funds.

**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.

**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 assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

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, Nonmajor and Fiduciary 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, 2007

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

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

**Reporting Major, Nonmajor and Fiduciary Funds (Continued)**

**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 incremental sales and property taxes.

**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.

**Motor Fuel Tax Fund** - This fund is used to account for the revenues and expenditures associated with road projects that are funded by motor fuel taxes. Financing is provided by motor fuel tax revenue.

**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.

**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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

**BASIS OF ACCOUNTING (CONTINUED)**

**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. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this 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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

**BUDGETS (CONTINUED)**

The appropriation ordinance and budget was passed on April 17, 2006. The budget lapses at the end of each fiscal year. The City does not utilize an encumbrance system.

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

**INVESTMENTS (CONTINUED)**

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.

**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 Assets. 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 \$1,500 or more 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 expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

**CAPITAL ASSETS (CONTINUED)**

Buildings	10-50 years
Sewer system	5-50 years
Machinery and equipment	2-30 years
Infrastructure	5-50 years
Land improvements	40-50 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 general provisions of GASB Statement No. 34 in the year ended April 30, 2004 and is reporting infrastructure prospectively in accordance with the Statement.

**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, 2007 represents installments of the 2005 property taxes which were received during 2006. The 2006 property tax levy has been deferred at April 30, 2007, as it was budgeted for fiscal year 2008.

**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.

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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

**LONG-TERM OBLIGATIONS (CONTINUED)**

primarily of bonds payable, notes payable, accrued compensated absences, and net pension obligations. Bond issuance costs, bond discounts or premiums are capitalized and amortized over the terms of the respectable bonds.

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 ASSETS**

**Government-wide Statements**

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

- a. Invested in capital assets, net of related debt – 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 assets – Consists of net assets 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 assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Use of Restricted/Unrestricted Net Assets**

Net assets are reported as restricted when constraints placed on net asset 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, 2007

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

**FUND EQUITY/NET ASSETS (CONTINUED)**

**Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserves represent those portions of fund equity that are legally segregated for a specific future use or not appropriable for expenditure. Proprietary fund equity is classified the same as in the government-wide statements.

**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.

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 \$1,046,247 and the bank balances totaled \$1,254,619. Cash on hand was \$4,535.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 2. Deposits and Investments (Continued)

At year end, the investment maturities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 or more</u>
Certificates of Deposit	\$ 1,655,327	\$ 620,656	\$1,034,671	\$ -	\$ -
Money Market	1,021,274	1,021,274	-	-	-
U.S. Treasuries	8,686,266	536,765	4,530,819	3,222,737	395,945
U.S. Agencies	4,402,586	1,398	113,725	36,351	4,251,112
Illinois Treasurer's Investment	1,453,733	1,453,733	-	-	-
Illinois Public Pension Funds	110,828	110,828	-	-	-
Mutual Funds	3,076,988	3,076,988	-	-	-
Annuities	<u>10,868,215</u>	<u>10,868,215</u>	-	-	-
	<u>\$31,275,217</u>	<u>\$17,689,857</u>	<u>\$5,679,215</u>	<u>\$3,259,088</u>	<u>\$4,647,057</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 Pool's AAA 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, 2007, the City had \$1,453,733 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.

**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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 2. Deposits and Investments (Continued)

**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 AAA 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.

**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, 2007, none of the City's deposits were exposed to custodial credit risk.

**Concentration of Credit Risk**

The City places no limit on the amount the City may invest in any one issue. More than 5.00% of the City's investments are in Transamerica Landmark Annuity. This annuity is 6.00% of the City's total investment. This investment is reported in Police Pension Trust Fund and is 6.38% of the City's aggregate remaining fund information.

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2007, was as follows:

	<u>Balance at</u> <u>May 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>April 30, 2007</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 979,016	\$ 15,500	\$ -	\$ 994,516
Construction in progress	<u>171,619</u>	<u>870,963</u>	<u>-</u>	<u>1,042,582</u>
Total capital assets not being depreciated	<u>1,150,635</u>	<u>886,463</u>	<u>-</u>	<u>2,037,098</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2007</u>
<b>Governmental activities (Continued):</b>				
Capital assets being depreciated				
Buildings	1,299,552	78,582	-	1,378,134
Equipment	3,564,687	499,565	-	4,064,252
Land improvements	781,383	-	-	781,383
Infrastructure	<u>4,897,102</u>	<u>539,810</u>	-	<u>5,436,912</u>
 Total capital assets being depreciated	 <u>10,542,724</u>	 <u>1,117,957</u>	 -	 <u>11,660,681</u>
Less accumulated depreciation for				
Buildings	380,949	46,547	-	427,496
Equipment	1,868,340	263,828	-	2,132,168
Land improvements	179,372	15,613	-	194,985
Infrastructure	<u>118,924</u>	<u>112,810</u>	-	<u>231,734</u>
 Total accumulated depreciation	 <u>2,547,585</u>	 <u>438,798</u>	 -	 <u>2,986,383</u>
 Total capital assets being depreciated, net	 <u>7,995,139</u>	 <u>679,159</u>	 -	 <u>8,674,298</u>
 Governmental activities capital assets, net	 <u>\$ 9,145,774</u>	 <u>\$1,565,622</u>	 <u>\$ -</u>	 <u>\$10,711,396</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in progress	<u>952,380</u>	<u>18,966</u>	<u>966,078</u>	<u>5,268</u>
 Total capital assets not being depreciated	 <u>1,100,978</u>	 <u>18,966</u>	 <u>966,078</u>	 <u>153,866</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2007</u>
<b>Business-type activities (Continued):</b>				
Capital assets being depreciated				
Buildings and equipment	5,550,347	1,184,953	-	6,735,300
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,000,603	-	-	5,000,603
Sewer separation work	<u>3,676,298</u>	<u>-</u>	<u>-</u>	<u>3,676,298</u>
 Total capital assets being depreciated	 <u>15,790,688</u>	 <u>1,184,953</u>	 <u>-</u>	 <u>16,975,641</u>
 Less accumulated depreciation:				
Buildings and equipment	2,900,231	143,127	-	3,043,358
Inceptors, mains, and pump stations	925,330	27,139	-	952,469
Storm sewers	1,282,655	100,196	-	1,382,851
Sewer separation work	<u>1,924,410</u>	<u>74,754</u>	<u>-</u>	<u>1,999,164</u>
 Total accumulated depreciation	 <u>7,032,626</u>	 <u>345,216</u>	 <u>-</u>	 <u>7,377,842</u>
 Total capital assets being depreciated	 <u>8,758,062</u>	 <u>839,737</u>	 <u>-</u>	 <u>9,597,799</u>
 Business-type activities capital assets, net	 <u>\$ 9,859,040</u>	 <u>\$ 858,703</u>	 <u>\$966,078</u>	 <u>\$ 9,751,665</u>

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

Governmental activities:	
General government	\$ 61,442
Public safety	129,392
Public works and transportation	132,239
Community development	12,439
Culture and recreation	29,250
Other	<u>74,036</u>
 Total depreciation expense	 <u>\$438,798</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 3. Capital Assets (Continued)

Business-type activities:	
Sewer	\$345,216
Solid waste	<u>          -</u>
Total depreciation expense	<u>\$345,216</u>

Note 4. Construction Commitments

As of April 30, 2007, the City had remaining obligations under construction contracts as follows:

	<u>Project amount authorized</u>	<u>Expended to date</u>	<u>Commitment</u>
Freeport Road	\$ 885,917	\$ 841,621	\$ 44,296

Note 5. 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 \$50,000 per employee and \$1,099,507 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, 2005	\$ 138,427
Claims incurred	961,455
Claims paid	<u>(961,668)</u>
Claims payable, April 30, 2006	138,214
Claims incurred	1,128,554
Claims paid	<u>(1,167,071)</u>
Claims payable, April 30, 2007	<u>\$ 99,697</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 6. Long-Term Debt

Transactions for the year ended April 30, 2007 are summarized as follows:

	<u>Balance at</u> <u>May 1, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>April 30, 2007</u>	<u>Due Within</u> <u>1 Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$10,429,611	\$ -	\$ 744,854	\$ 9,684,757	\$ 545,925
Leases payable	-	274,940	-	274,940	87,618
Loans payable	121,590	30,014	58,911	92,693	60,229
Redevelopment agreements	444,000	-	91,000	353,000	25,000
Compensated absences	321,458	37,791	-	359,249	-
Net pension obligation	<u>212,307</u>	<u>-</u>	<u>151,847</u>	<u>60,460</u>	<u>-</u>
	<u>\$11,528,966</u>	<u>\$342,745</u>	<u>\$1,046,612</u>	<u>\$10,825,099</u>	<u>\$718,772</u>
<b>Business-type activities:</b>					
Notes payable	\$2,431,388	\$132,007	\$160,603	\$2,402,792	\$198,346
Compensated absences	<u>12,842</u>	<u>13,606</u>	<u>-</u>	<u>26,448</u>	<u>-</u>
	<u>\$2,444,230</u>	<u>\$145,613</u>	<u>\$160,603</u>	<u>\$2,429,240</u>	<u>\$198,346</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. Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 110,000	\$ 46,373
2009	115,000	43,017
2010	120,000	39,338
2011	120,000	35,317
2012	130,000	31,298
2013-2017	<u>745,000</u>	<u>84,220</u>
Total	<u>\$1,340,000</u>	<u>\$279,563</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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.

\$3,885,000 General Obligation Bonds (Alternate Revenue Source) dated May 1, 2001 due in annual installments of \$225,000 to \$440,000 due on March 1 of each year with interest at 4.25% to 4.30% due March 1 and September 1 each year through March 1, 2013. Payments are due as follows:

<b>Year Ended</b>		<b><u>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>			
2008	\$	290,000	\$ 93,955
2009		320,000	81,485
2010		350,000	67,725
2011		375,000	52,675
2012		410,000	36,550
2013		<u>440,000</u>	<u>18,920</u>
Total		<b><u>\$2,185,000</u></b>	<b><u>\$351,310</u></b>

Ordinance 2001-04-16 was passed by the City Council for issuance of Series 2001 General Obligation Bonds (Sales Tax/Tax Increment Alternate Revenue Source) in an amount of \$3,885,000. The ordinance authorizing the bond issue imposed certain conditions on the City as follows:

Gross Sales Tax Account with pledged sales and incremental taxes deposited until an amount is obtained for payment of the next interest and principal requirement.

During the fiscal year ended April 30, 1996, the City issued \$390,000 of Special Service Area Bonds for the Tori Pines Subdivision. These bonds are payable solely from the taxes levied in the special service area. The bonds are due in semi-annual installments of \$6,500 to \$12,750 due on July 1 and October 1 each year. Interest is at 5.50% and also paid on July 1 and October 1 each year.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b><u>Year Ended</u></b>		<b><u>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>			
2008		\$ 22,000	\$11,864
2009		22,000	10,637
2010		22,000	9,410
2011		22,000	8,184
2012		25,500	6,932
2013-2016		<u>102,000</u>	<u>13,508</u>
Total		<u>\$215,500</u>	<u>\$60,535</u>

During the fiscal year ended April 30, 1999, the City issued \$370,000 of Special Service Area Bonds for the Greenridge Subdivision. These bonds are payable solely from the taxes levied in the special service area. The bonds are due in annual installments due on October 15 each year. Interest is at 6.00% and also paid on October 15 each year. Payments are due as follows:

<b><u>Year Ended</u></b>		<b><u>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>			
2008		\$ 18,925	\$ 19,155
2009		20,060	18,020
2010		21,264	16,816
2011		22,539	15,541
2012		23,892	14,188
2013-2017		142,762	47,638
2018-2019		<u>69,815</u>	<u>6,345</u>
Total		<u>\$319,257</u>	<u>\$137,703</u>

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.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

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Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 105,000	\$ 157,510
2009	110,000	153,520
2010	120,000	149,340
2011	135,000	144,780
2012	155,000	139,650
2013-2017	1,150,000	590,900
2018-2022	1,880,000	320,340
2023	<u>490,000</u>	<u>18,620</u>
 Total	 <u>\$4,145,000</u>	 <u>\$1,674,660</u>

Ordinance 2005-05-21 was passed by the City Council for issuance of Series 2005 General Obligation Bonds (Alternate Revenue Source) in an amount not to exceed \$2,000,000.

During the fiscal year ended April 30, 2006, the City issued \$1,800,000 of General Obligation Bonds (Alternate Revenue Source), Series 2005 for the Lynn Boulevard Project. These bonds are payable solely from local sales taxes. The bonds are due in annual installments due on May 1 each year with interest is at 2.85% to 3.95% due May 1 and November 1 each year through May 1, 2015.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ -	\$ -
2009	165,000	54,900
2010	170,000	49,620
2011	175,000	43,925
2012	180,000	37,800
2013-2016	<u>790,000</u>	<u>80,260</u>
 Total	 <u>\$1,480,000</u>	 <u>\$317,354</u>

**Leases Payable**

The City entered into a capital lease agreement for \$274,940 for the purchase of a fire pumper truck, dated December 20, 2006. Interest was at 4.53%, with three payments of \$100,072 each due on December 20, 2007, 2008, and 2009. As of April 30, 2007, the balance is \$274,940.

**Loans Payable**

The City entered into an installment sales contract for \$60,000 for the purchase of 5 acres of land, dated December 19, 2002, with final payment due December 19, 2006. Interest is at 5.00%, with five payments due on December 19, 2002, 2003, 2004, 2005 and 2006. The loan was paid off during the year ended April 30, 2007.

The City entered into a loan agreement for \$30,014 for the purchase of a HVAC system, dated October 2, 2006, with final payment due October 2, 2008. Interest is at 4.95%, with two payments due on October 2, 2007 and 2008. As of April 30, 2007, the balance is \$30,014.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Loans Payable (Continued)**

Future minimum payments are as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2008	\$14,661	\$1,486	\$16,147
2009	<u>15,353</u>	<u>760</u>	<u>16,113</u>
Total	<u>\$30,014</u>	<u>\$2,246</u>	<u>\$32,260</u>

The City entered into a loan agreement for \$80,000 for the purchase of computer software dated May 20, 2003, with final payment due May 20, 2008. Interest is at 4.25%, with monthly payments of \$1,485. As of April 30, 2007, the balance is \$18,676.

Future minimum payments are as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2008	\$17,359	\$258	\$17,617
2009	<u>1,317</u>	<u>5</u>	<u>1,322</u>
Total	<u>\$18,676</u>	<u>\$263</u>	<u>\$18,939</u>

The City entered into a loan agreement for \$60,000 for the purchase of a new roof for the Coliseum dated February 18, 2005, with final payment due February 18, 2009. Interest is at 3.85%, with four payments of \$16,492 each due on February 18, 2006, 2007, 2008, and 2009. As of April 30, 2007, the balance is \$31,090.

Future minimum payments are as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2008	\$15,295	\$1,197	\$16,492
2009	<u>15,795</u>	<u>608</u>	<u>16,403</u>
Total	<u>\$31,090</u>	<u>\$1,805</u>	<u>\$32,895</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

Note 6. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Loans Payable (Continued)**

The City entered into a loan agreement for \$25,368 for the purchase of a new public works truck dated July 5, 2005, with final payment due July 5, 2007. Interest is at 3.85%, with two payments of \$13,431 each due on July 5, 2006 and 2007. As of April 30, 2007, the balance is \$12,913.

Future minimum payments are as follows:

<b><u>Year Ended</u></b>			
<b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2008	<u>\$12,913</u>	<u>\$497</u>	<u>\$13,410</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, 2007, 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, 2007, the balance is \$285,000.

The City entered into a redevelopment agreement on January 7, 2003 which included a provision that the City reimburse the developer \$100,000 for eligible redevelopment costs. The redevelopment note was paid off during the year ended April 30, 2007.

**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, 2007 are as follows:

Governmental activities	<u>\$ 359,249</u>
Business-type activities	<u>\$ 26,448</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 6. Long-Term Debt (Continued)

**Compensated Absences**

At April 30, 2007, the City had the following net pension obligations:

Police pension	\$43,675
Fire pension	<u>16,785</u>
Total	<u>\$60,460</u>

The City entered into a loan agreement for \$708,184 with the Illinois Environmental Protection Agency dated June 30, 1991, with final payment due February 24, 2012. Interest is at 3.59%, with payments of \$25,173 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2007, the balance is \$228,569.

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, 2007, the balance is \$1,329,290.

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, 2007, the balance is \$808,676.

The City entered into a loan agreement for \$36,257 with U S Bank for the purchase of sewer camera equipment dated November 20, 2006, with final payment due November 20, 2008. Interest is at 4.72%, with payments due on November 20, 2007 and 2008. As of April 30, 2007, the balance is \$36,257.

**Debt Service Requirement to Maturity**

<b><u>Fiscal Year</u></b> <b><u>Ending April 30</u></b>	<b><u>1991 EPA Loan</u></b>		<b><u>1997 EPA Loan</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 42,520	\$ 7,827	\$ 104,264	\$ 37,669
2009	44,060	6,287	107,299	34,634
2010	45,656	4,691	110,422	31,510
2011	47,310	3,038	113,637	28,296
2012	49,023	1,324	116,944	24,988
2013 - 2017	-	-	637,810	71,853
2018 - 2022	-	-	<u>138,914</u>	<u>3,018</u>
Total	<u>\$228,569</u>	<u>\$23,167</u>	<u>\$1,329,290</u>	<u>\$231,968</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 6. Long-Term Debt (Continued)

**Debt Service Requirement to Maturity (Continued)**

<u>Fiscal Year</u> <u>Ending April 30</u>	<u>2006 EPA Loan</u>		<u>2006 Sewer Camera Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 33,832	\$ 20,007	\$17,730	\$1,711
2009	34,684	19,156	18,527	875
2010	35,556	18,283	-	-
2011	36,451	17,389	-	-
2012	37,367	16,472	-	-
2013 - 2017	201,419	67,776	-	-
2018 - 2022	228,061	41,134	-	-
2023 - 2027	<u>201,306</u>	<u>11,372</u>	<u>-</u>	<u>-</u>
Total	<u>\$808,676</u>	<u>\$211,589</u>	<u>\$36,257</u>	<u>\$2,586</u>

Note 7. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2006:

Assessed valuation - 2006	<u>\$162,696,429</u>
Statutory debt limitation (8.625% of assessed limitation)	<u>\$ 14,032,567</u>
Total debt:	
Alternate revenue source bonds	\$5,005,000
Tax increment revenue bonds	4,145,000
Special service area bonds	534,757
EPA loans payable	2,366,535
Leases payable	274,940
Loans payable	<u>128,950</u>
	12,455,182
Less:	
Alternate revenue source bonds	5,005,000
Tax increment revenue bonds	4,145,000
Special service area bonds	534,757
EPA loans payable	<u>2,366,535</u>
	<u>12,051,292</u>
Total amount of debt applicable to debt limit	<u>403,890</u>
Legal debt margin	<u>\$ 13,628,677</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 8. Conduit Debt

During the fiscal year ended April 30, 2007, the City issued \$16,000,000 of hospital refunding and improvement bonds for CGH Medical Center, component unit of the City. These bonds are not a liability of the City and are paid by CGH Medical Center. At April 30, 2007, \$15,080,000 of this debt was outstanding.

During the fiscal year ended April 30, 2004, the City issued \$12,000,000 of hospital refunding and improvement bonds for CGH Medical Center, component unit of the City. These bonds are not a liability of the City and are paid by CGH Medical Center. At April 30, 2007, \$10,915,000 of this debt was outstanding.

During the fiscal year ended April 30, 2000, the City issued \$4,775,000 of revenue bonds for Hoosier Care, Inc.. These bonds are not a liability of the City and are paid by Hoosier Care, Inc.. At April 30, 2007, \$4,465,000 of this debt was outstanding.

During the fiscal year ended April 30, 2000, the City issued \$220,000 of taxable revenue bonds for Hoosier Care, Inc.. These bonds are not a liability of the City and are paid by Hoosier Care, Inc.. At April 30, 2007, \$185,000 of this debt was outstanding.

Note 9. Employee Retirement Systems

**Plan Descriptions**

The City's employees are covered by three separate retirement plans: policemen and firemen each have separate retirement plans and substantially all other City employees and participants are covered in the Illinois Municipal Retirement Fund (IMRF).

**Illinois Municipal Retirement**

The City's defined benefit pension plan, Illinois Municipal Retirement Fund (IMRF), provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. IMRF acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly.

IMRF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at [www.imrf.org/pubs/pubs\\_homepage.htm](http://www.imrf.org/pubs/pubs_homepage.htm) or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 9. Employee Retirement Systems (Continued)

**Illinois Municipal Retirement (Continued)**

Employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The member rate is established by state statute. The City is required to contribute at an actuarially determined rate. The employer rate for calendar year 2006 was 7.23% of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The remaining amortization period at December 31, 2006 was 26 years.

For December 31, 2006, the City's annual pension cost of \$169,089 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2006 actuarial valuation were based on the 2002-2004 experience study.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2006	\$ 169,089	100%	\$ -
December 31, 2005*	4,252,508	100	-
December 31, 2004*	1,128,537	100	-

\* Includes component unit.

**Assumptions**

The actuarial assumptions used to determine the actuarial accrued liability for 2006 are based on the 2002-2004 Experience Study.

The principal changes were:

The 1994 Group Annuity Mortality implemented.

For regular members, fewer normal and more early retirements are expected to occur.

SLEP Member contribution rate changed from 6.50% to 7.50% effective June 1, 2006.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 9. Employee Retirement Systems (Continued)

**Police Pension**

Police sworn personnel are covered by the Police Pension Plan which is a defined benefit single-employer pension plan that provides retirement benefits as well as death benefits and disability benefits. Although this is a single-employer pension plan, the defined benefits and employee contribution levels are governed by Illinois Compiled Statutes (Chapter 40 - Article 5/3) and may be amended only by the Illinois legislature. At April 30, 2007, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	19
Current employees:	
Vested	20
Nonvested	<u>11</u>
 Total	 <u>50</u>

Employees attaining the age 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of 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 pension shall be increased by 2.0% of such salary for each additional year of service over 20 years up to 30 years, and 1% of such salary for each additional year of service over 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 pension 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% simple interest annually thereafter.

Covered employees are required 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. The current rate is 13.06% of covered payroll. Effective July 1, 1993 the City's contributions must accumulate to the point where the past service cost for the Police Pension Plan is fully funded by the year 2033.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2007

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Note 9. Employee Retirement Systems (Continued)

**Firefighters' Pension**

Fire sworn personnel are covered by the Firefighters' Pension Plan which is a defined benefit single-employer pension plan that provides retirement benefits as well as death benefits and disability benefits. Although this is a single-employer pension plan, the defined benefits as well as the employee and employer contributions levels are mandated by Illinois Compiled Statutes (Chapter 40 - Article 5/4) and may be amended only by the Illinois legislature. At April 30, 2007, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	21
Current employees:	
Vested	16
Nonvested	<u>7</u>
Total	<u>44</u>

Employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit of one-half of the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension shall be increased by one-twelfth of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service and one-twelfth of 1% of such monthly service for each additional month over 30 years of service, to a maximum of 75% of such monthly 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 retirement benefit.

The monthly pension of a firefighter who retired with 20 or more years of service after January 1, 1986 shall be increased annually, following the first anniversary date of retirement and paid upon reaching at least the age 55, by 3% of the original pension and 3% annually thereafter.

Covered employees are required 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 interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. The current rate is 14.26% of covered payroll. Effective July 1, 1993 the City's contributions must accumulate to the point where the past service cost for the Firefighters' Pension Plan is fully funded by the year 2033.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 9. Employee Retirement Systems (Continued)

**Funding Policy and Annual Pension Cost**

The City's annual pension cost and net pension obligation for each plan is as follows:

	<u>Police Pension Plan</u>	<u>Firefighters' Pension Plan</u>
Annual required contribution	\$ 283,729	\$ 164,803
Interest on net pension obligation	7,503	9,482
Adjustment to annual required contribution	<u>(7,651)</u>	<u>(9,669)</u>
Annual pension cost	283,581	164,616
Contributions made	<u>(333,689)</u>	<u>(266,354)</u>
Increase (decrease) in net pension obligation	(50,108)	(101,738)
Net pension obligation, beginning of year	<u>93,783</u>	<u>118,524</u>
 Net pension obligation, end of year	 <u>\$ 43,675</u>	 <u>\$ 16,786</u>

The date of the actuarial valuation and actuarial method and assumptions used are as follows:

Actuarial valuation date	May 1, 2006
Actuarial cost method	Entry Age Normal Cost
Actuarial value of assets	3-year Smoothed Market
Amortization method	Level Dollar Closed
Remaining amortization period	31 Years, 0 Months
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	TCG Basic Salary Table providing graded increases from 1.12% to 4.86% varying by age, plus the inflation rate shown below
Inflation factor	2.50%
Cost of living increases	3.00%

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 9. Employee Retirement Systems (Continued)

**Funding Policy and Annual Pension Cost**

**Trend Information**

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Police Pension Fund</u>			
04/30/07	\$283,581	117.67%	\$43,675
04/30/06	305,262	90.18	97,783
04/30/05	269,484	98.94	63,819
<u>Firefighters' Pension Fund</u>			
04/30/07	\$ 164,616	161.80%	\$ 16,785
04/30/06	252,215	75.25	118,524
04/30/05	180,023	81.69	56,109

Note 10. Interfund Balances

**Operating Transfers**

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 25,000	\$ -
CBD Tax Increment Allocation Fund	-	16,000
Rock River Tax Increment Allocation Fund	-	134,215
Nonmajor Governmental	-	40,000
	<u>25,000</u>	<u>190,215</u>
Rock River Tax Increment Allocation Fund:		
General Fund	134,215	-
CBD Tax Increment Allocation Fund	-	54,609
	<u>134,215</u>	<u>54,609</u>
CBD Tax Increment Allocation Fund:		
General Fund	16,000	-
Rock River Tax Increment Allocation Fund	54,609	-
	<u>70,609</u>	<u>-</u>
Sewer Fund:		
General Fund	-	25,000
Nonmajor Governmental:		
General Fund	40,000	-
Total operating transfers	<u>\$269,824</u>	<u>\$269,824</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 10. Interfund Balances (Continued)

**Operating Transfers (continued)**

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.

**Due From/Due To Other Funds**

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Rock River Tax Increment Allocation Fund	<u>197,870</u>	<u>-</u>
	<u>647,870</u>	<u>-</u>
Rock River Tax Increment Allocation Fund:		
General Fund	-	197,870
Sewer Fund	<u>-</u>	<u>1,100,000</u>
	<u>-</u>	<u>1,297,870</u>
CBD Tax Increment Allocation Fund:		
General Fund	-	450,000
Motor Fuel Tax Fund	-	179,044
Nonmajor Governmental	<u>-</u>	<u>402,500</u>
	<u>-</u>	<u>1,031,544</u>
Motor Fuel Tax Fund:		
CBD Tax Increment Allocation Fund	179,044	-
Internal Service Fund	<u>152,281</u>	<u>-</u>
	<u>331,325</u>	<u>-</u>
Sewer Fund:		
Rock River Tax Increment Allocation Fund	<u>1,100,000</u>	<u>-</u>
Internal Service:		
Motor Fuel Tax Fund	<u>-</u>	<u>152,281</u>
Nonmajor Governmental:		
CBD Tax Increment Allocation Fund	<u>402,500</u>	<u>-</u>
<b>Total due from/due to other funds</b>	<u><b>\$2,481,695</b></u>	<u><b>\$2,481,695</b></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.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 10. Interfund Balances (Continued)

**Due From/Due To Other Funds**

Other interfund loans existing at April 30, 2007, and their purpose were as follows:

The CBD Tax Increment Allocation Fund owed the General Fund \$450,000 for money loaned to cover expenses for the downtown TIF.

The CBD Tax Increment Allocation Fund owed the Infrastructure Fund \$402,500 for money loaned to cover expenses for the downtown TIF.

Note 11. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2007:

	<u>Expenditures</u>	<u>Budget</u>
Rock River Tax Increment Allocation Fund	\$ 700,164	\$ 585,878
CBD Tax Increment Allocation Fund	476,140	476,135
Industrial Development Fund	214,389	209,857
Coliseum Fund	171,904	167,636
Civil Defense Fund	14,714	14,115
Lynn Boulevard Fund	250,425	218,777
Solid Waste Fund	536,542	516,656
Internal Service Fund	1,334,113	1,297,373
Firemen's Pension Fund	573,605	564,307

The following funds had deficit fund balances or deficit retained earnings at April 30, 2007:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$790,238
CBD Tax Increment Allocation Fund	518,194
Internal Service Fund	226,705

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 12. 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, 2007.

**Basis of Accounting**

The Medical Center uses the economic resources measurement focus and the accrual method 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 include all liquid investments with maturities of three months or less when purchased.

**Accounts Receivable and Credit Policies**

Accounts receivable are uncollateralized patient and third party payor obligations which generally require payment within thirty days from invoice date. Accounts receivable are stated at the invoice amount.

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, at this time they are also written off as uncollectible.

Payments of 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 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 revenue for each of these allowances is recorded on a monthly basis as an offset to revenue and receivables. The percentages used by management are based off of historical trends with final adjustments made when cost reports are filed. Periodically management reviews outstanding accounts for creditworthiness.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 12. Component Unit - CGH Medical Center (Continued)

**Inventories**

General stores, pharmacy and other inventories – 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 Whose Use is Limited**

Assets whose use is limited includes assets that are externally restricted under bond indenture agreements to make debt service payments, maintain sinking or reserve funds.

**Compensated Absences**

Employees’ compensated absences are accrued when earned. The obligation and expenditure incurred during the year are recorded as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of changes in net assets.

**Noncurrent Liabilities**

Noncurrent liabilities include principal amounts of revenue bonds payable and obligations under capital leases with contractual maturities greater than one year.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 12. Component Unit - CGH Medical Center (Continued)

**Net Assets**

The Medical Center's net assets are classified as follows:

Invested in capital assets - This represents the Medical Center's total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net assets - Consists of net assets with constraints placed on the use by external groups such as creditors or contributors.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets".

**Risk Management**

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

**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 payors was as follows:

Medicare	34%
Medicaid	12
Blue Cross	5
Other third-party payors	32
Patients	<u>17</u>
Total	<u>100%</u>

**Classification of Revenues**

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 revenues.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 12. Component Unit - CGH Medical Center (Continued)

**Classification of Revenues (Continued)**

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. 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 payors 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 per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. 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, 2005.

**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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 12. Component Unit - CGH Medical Center (Continued)

**Net Patient Service Revenue (Continued)**

**Blue Cross**

Services rendered to Blue Cross subscribers are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at the Medical Center's charges 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, 2006.

**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.

**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.

**Component Units**

Rock River Health, Inc., Helping Hands Daycare and CGH Health Foundation, Inc., are 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. 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., Helping Hands Daycare and CGH Health Foundation, Inc., 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.

CITY OF STERLING, ILLINOIS  
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Note 12. Component Unit - CGH Medical Center (Continued)

**Capital Assets**

Land is valued at appraisal value at August, 1957, with subsequent additions at cost. Building and equipment values have been restated in accordance with a cost appraisal prepared by appraisers and valuation consultants. Valuations shown are estimated original cost as determined by appraisers at April 30, 1969, with subsequent additions at cost.

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.

Assets are depreciated using the straight-line method over their estimated useful lives. Useful lives range from three to forty years.

**Unconsolidated Investees**

The Medical Center has equity in two joint ventures. The net equity accounts are adjusted for the Medical Center's proportionate share of the undistributed earnings or losses. At April 30, 2007, the net equity in unconsolidated investees is \$3,314,405.

**Deposits and Investments**

At year-end, the carrying amount of the Medical Center's unrestricted cash and deposits was \$12,741,415 and the bank balances totaled \$12,632,224. Cash on hand was \$2,225.

As of April 30, 2007, the Medical Center had the following investments

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 or more</u>
Certificates of Deposit	\$ 1,048,955	\$ 1,048,955	\$ -	\$ -	\$ -
FNMA	7,813,812	6,224,033	1,439,242	-	150,537
U.S. Treasuries	3,890,890	989,180	2,901,710	-	-
FHLB	3,415,811	297,851	3,117,960	-	-
GNMA	899,122	-	-	-	899,122
FHLML	<u>4,313,280</u>	<u>2,983,175</u>	<u>1,058,130</u>	<u>-</u>	<u>271,975</u>
	<u>\$21,381,870</u>	<u>\$11,543,194</u>	<u>\$8,517,042</u>	<u>\$ -</u>	<u>\$1,321,634</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 12. Component Unit - CGH Medical Center (Continued)

**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 of 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 10% of the Medical Center's invested funds at any one time.

**Long-term liabilities**

At April 30, 2007, bonds payable consisted of the following individual issue:

2003 Municipal Program Revenue Bonds, dated October 15, 2003, due in annual installments through 2024, bearing interest at variable rates ranging from 1.20% to 4.95%.  
2006 Municipal Program Revenue Bonds, dated September 15, 2006, due in annual installments through 2023, bearing interest at variable rates ranging from 3.95% to 4.60%.

Transactions for the year ended April 30, 2007, are summarized as follows:

	<u>Balance</u> <u>May 1, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>April 30, 2007</u>
2003 bonds, net of unamortized discount	\$10,475,000	\$ -	\$ 455,000	\$10,020,000
2006 Bond principal	-	15,080,000	850,000	14,230,000
Unamortized bond discount	<u>199,500</u>	<u>286,520</u>	<u>21,479</u>	<u>464,541</u>
<b>Total revenue bonds payable</b>	<u>\$10,275,500</u>	<u>\$14,793,480</u>	<u>\$1,283,521</u>	<u>\$23,785,459</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

Note 12. Component Unit - CGH Medical Center (Continued)

Annual requirements to retire debt obligations:

<u>Year Ending</u> <u>April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ -	\$ -
2009	1,105,000	1,056,920	2,161,920
2010	1,140,000	1,018,830	2,158,830
2011	1,185,000	977,460	2,162,460
2012	1,230,000	932,305	2,162,305
2013-2017	6,940,000	3,859,063	10,799,063
2018-2022	8,620,000	2,189,881	10,809,881
2023-2024	<u>4,030,000</u>	<u>288,128</u>	<u>4,318,128</u>
Total	<u>\$24,250,000</u>	<u>\$10,322,587</u>	<u>\$34,572,587</u>

**Capital Assets**

Capital asset activity for the year ended April 30, 2007 was as follows:

	<u>Balance at</u> <u>May 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>April 30, 2007</u>
<b>Medical Center</b>				
Land	\$ 2,393,988	\$ 1,150	\$ -	\$ 2,395,138
Land improvements	1,876,556	45,075	-	1,921,631
Buildings	35,467,466	371,303	726	35,838,043
Rented buildings	19,687,153	112,895	-	19,800,048
Building service equipment	12,639,583	-	117,732	12,521,851
Moveable equipment	42,284,023	8,147,795	901,840	49,529,978
Construction in progress	<u>1,306,300</u>	<u>8,141,342</u>	<u>448,385</u>	<u>8,999,257</u>
Total cost	<u>115,655,069</u>	<u>16,819,560</u>	<u>1,468,683</u>	<u>131,005,946</u>
Less accumulated depreciation for:				
Land improvements	1,330,295	73,528	-	1,403,823
Buildings	19,522,513	1,709,647	565	21,231,595
Rented buildings	3,695,585	925,648	-	4,621,233
Building service equipment	10,712,437	410,102	70,640	11,051,899
Moveable equipment	<u>29,170,127</u>	<u>4,271,582</u>	<u>740,967</u>	<u>32,700,742</u>
Total accumulated depreciation	<u>64,430,957</u>	<u>7,390,507</u>	<u>812,172</u>	<u>71,009,292</u>
<b>Total Medical Center</b> <b>capital assets, net</b>	<u>\$ 51,224,112</u>	<u>\$ 9,429,053</u>	<u>\$ 656,511</u>	<u>\$ 59,996,654</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2007

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Note 12. Component Unit - CGH Medical Center (Continued)

**Risk Management**

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 \$200,000 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, 2007 to be approximately \$720,000.

**Contingent liabilities**

The Medical Center purchases professional liability insurance to cover medical malpractice claims. The policy is a claims made policy that has a retroactive date 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.

The Medical Center purchases separate professional liability insurance to cover medical malpractice claims for specific 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF FUNDING PROGRESS**  
**April 30, 2007**

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}
<b><u>Police Pension Fund</u></b>						
4/30/07	\$ 10,778,895	\$ 11,544,004	\$ 765,109	93.37%	\$ 1,491,181	51.31%
4/30/06	10,159,721	11,967,912	1,808,191	84.89%	1,450,161	124.69%
4/30/05	9,832,522	11,342,940	1,510,418	86.68%	1,329,213	113.63%
<b><u>Firemen Pension Fund</u></b>						
4/30/07	\$ 10,931,479	\$ 11,415,611	\$ 484,132	95.76%	\$ 1,110,386	43.60%
4/30/06	10,348,794	11,675,282	1,326,488	88.64%	1,106,240	119.91%
4/30/05	10,427,747	10,866,978	439,231	95.96%	1,066,931	41.17%
<b><u>IMRF *</u></b>						
12/31/06	\$ 10,193,591	\$ 7,842,911	\$ (2,350,680)	129.97%	\$ 2,338,715	0.00%
12/31/05	8,941,978	8,131,425	(810,553)	109.97%	23,957,794	0.00%
12/31/04	17,221,945	59,618,956	42,397,011	28.89%	22,525,684	188.22%

\* Includes component unit in December 31, 2005 and 2004.

On a market value basis, the actuarial value of assets as of December 31, 2006 is \$11,253,361. On a market basis, the funded ratio would be 143.48%.

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2007**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Property taxes:				
Corporate	\$ 356,352	\$ 356,184	\$ 356,184	\$ -
Fire protection	17,500	177,504	177,504	-
Police protection	177,500	177,504	177,504	-
Liability insurance	184,041	184,005	184,005	-
Workers' compensation	67,102	67,100	67,100	-
Road and bridge	113,000	106,846	106,846	-
Police pension	313,000	312,884	312,884	-
Fire pension	240,000	239,873	239,873	-
Total property taxes	<u>1,468,495</u>	<u>1,621,900</u>	<u>1,621,900</u>	<u>-</u>
Sales tax	<u>4,606,900</u>	<u>4,649,400</u>	<u>4,603,306</u>	<u>(46,094)</u>
Intergovernmental revenue:				
State income tax	1,135,000	1,291,000	1,345,162	54,162
State replacement tax	246,000	253,000	319,967	66,967
Township replacement tax	16,000	19,000	20,452	1,452
State grants	5,000	6,974	6,974	-
Blackhawk Area Task Force	115,983	93,900	78,546	(15,354)
Fire Department Wal-Mart Grant	-	2,250	2,250	-
Township grant	8,000	-	-	-
Tobacco Grant	2,860	2,860	2,860	-
Bulletproof Vest Grant	1,375	1,372	1,767	395
Other grants	-	-	10,000	10,000
Fire protection revenue	<u>165,000</u>	<u>175,257</u>	<u>175,257</u>	<u>-</u>
Total intergovernmental revenue	<u>1,695,218</u>	<u>1,845,613</u>	<u>1,963,235</u>	<u>117,622</u>
Licenses and permits:				
Franchise licenses	420,000	601,000	598,918	(2,082)
Liquor licenses	63,600	70,000	55,104	(14,896)
Building permits	40,000	25,000	22,847	(2,153)
Other	<u>48,800</u>	<u>51,025</u>	<u>51,452</u>	<u>427</u>
Total licenses and permits	<u>572,400</u>	<u>747,025</u>	<u>728,321</u>	<u>(18,704)</u>
Fines and penalties	<u>282,000</u>	<u>265,120</u>	<u>262,717</u>	<u>(2,403)</u>
Charges for services	<u>45,200</u>	<u>55,200</u>	<u>59,351</u>	<u>4,151</u>

**CITY OF STERLING, ILLINOIS  
GENERAL FUND (CONTINUED)  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2007**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Investment income:				
Interest income	266,035	270,305	285,178	14,873
Unrealized loss	-	-	78,425	78,425
Total investment income	<u>266,035</u>	<u>270,305</u>	<u>363,603</u>	<u>93,298</u>
Donations	<u>319,400</u>	<u>267,500</u>	<u>318,158</u>	<u>50,658</u>
Other	<u>382,800</u>	<u>400,950</u>	<u>464,700</u>	<u>63,750</u>
 Total revenues	 <u>\$ 9,638,448</u>	 <u>\$ 10,123,013</u>	 <u>10,385,291</u>	 <u>\$ 262,278</u>

**CITY OF STERLING, ILLINOIS  
GENERAL FUND (CONTINUED)  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2007**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>EXPENDITURES</b>				
General government:				
Office of the Mayor and City Council	\$ 45,875	\$ 43,800	\$ 42,785	\$ 1,015
Office of City Clerk	97,850	94,275	95,392	(1,117)
Policy and Administration	306,353	300,242	299,589	653
Total general government	<u>450,078</u>	<u>438,317</u>	<u>437,766</u>	<u>551</u>
Public safety:				
Police Department				
Police Services Division	1,386,530	1,360,480	1,347,765	12,715
Administrative Services Division	293,460	281,455	277,446	4,009
Investigative Division	266,365	275,941	282,210	(6,269)
Support Services Division	543,393	515,880	500,200	15,680
Blackhawk Area Task Force Grant	115,983	93,900	75,833	18,067
Fire Department				
Fire Services Division	1,213,853	1,218,315	1,199,445	18,870
Administrative Services Division	156,560	149,850	151,308	(1,458)
Fire Prevention and Training Division	42,035	40,110	39,625	485
Total public safety	<u>4,018,179</u>	<u>3,935,931</u>	<u>3,873,832</u>	<u>62,099</u>
Public works and transportation:				
Administrative Division	157,097	154,399	152,791	1,608
Street Division	1,668,995	1,667,108	1,562,588	104,520
Traffic Division	67,732	62,382	40,273	22,109
City Shop	41,280	40,888	40,889	(1)
City Parks	59,255	82,641	78,468	4,173
Total public works and transportation	<u>1,994,359</u>	<u>2,007,418</u>	<u>1,875,009</u>	<u>132,409</u>
Community development:				
Office of Community Development	234,675	221,235	228,719	(7,484)
Other				
Contribution to police pension plan	313,000	312,831	312,884	(53)
Contribution to fire pension plan	240,000	239,832	239,873	(41)
Sterling Planning Commission	43,575	54,479	61,252	(6,773)
Police and Fire Commission	17,325	16,155	14,869	1,286
Non-departmental	1,478,800	1,706,094	1,648,977	57,117
Total other	<u>2,092,700</u>	<u>2,329,391</u>	<u>2,277,855</u>	<u>51,536</u>

**CITY OF STERLING, ILLINOIS  
GENERAL FUND (CONTINUED)  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2007**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
Debt service:				
Principal	-	32,638	60,184	(27,546)
Interest	-	1,179	2,756	(1,577)
Total debt service	-	33,817	62,940	(29,123)
Capital outlay	864,605	1,109,105	1,091,238	17,867
Total expenditures	<u>\$ 9,654,596</u>	<u>\$ 10,075,214</u>	<u>\$ 9,847,359</u>	<u>\$ 227,855</u>
Excess of revenues over expenditures			\$ 537,932	
 <b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the sale of bonds	\$ -	\$ 274,940	\$ 274,940	\$ -
Sale of property	2,000	20,000	22,173	2,173
Operating transfers in	25,000	25,000	25,000	-
Operating transfers out	(64,615)	(148,830)	(190,215)	(41,385)
	<u>\$ (37,615)</u>	<u>\$ 171,110</u>	<u>131,898</u>	<u>\$ (39,212)</u>
Excess of revenues and other financing sources over expenditures and other financing uses			669,830	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>6,654,385</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 7,324,215</u>	

**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, 2007**

	<u>Budget</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>favorable</b> <b>(unfavorable)</b>
<b>REVENUES</b>				
Taxes				
Property	\$ 360,000	\$ 330,398	\$ 330,398	\$ -
Sales	178,000	54,609	54,609	-
Intergovernmental				
Federal grants	100,000	-	-	-
State grants	100,000	160,000	116,113	(43,887)
Interest	450	16,500	16,466	(34)
Other	120,000	35,000	-	(35,000)
	<u>120,000</u>	<u>35,000</u>	<u>-</u>	<u>(35,000)</u>
Total revenues	<u>\$ 858,450</u>	<u>\$ 596,507</u>	<u>\$ 517,586</u>	<u>\$ (78,921)</u>
<b>EXPENDITURES</b>				
Community development				
Other professional service	\$ 200,000	\$ 160,725	116,839	\$ 43,886
Legal service	60,000	71,690	138,268	(66,578)
Environmental/USTs	100,000	52,187	52,795	(608)
Miscellaneous	360,400	2,607	18,976	(16,369)
Debt service				
Principal	50,000	150,000	150,000	-
Interest	-	148,669	223,286	(74,617)
	<u>-</u>	<u>148,669</u>	<u>223,286</u>	<u>(74,617)</u>
Total expenditures	<u>\$ 770,400</u>	<u>\$ 585,878</u>	<u>\$ 700,164</u>	<u>\$ (114,286)</u>
Deficiency of revenues over expenditures			\$ (182,578)	
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond/loan proceeds	\$ 400,000	\$ -	-	\$ -
Operating transfers in	-	84,215	134,215	50,000
Operating transfers out	(150,000)	(54,609)	(54,609)	-
	<u>\$ 250,000</u>	<u>\$ 29,606</u>	<u>79,606</u>	<u>\$ 50,000</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(102,972)	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(687,266)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (790,238)</u>	

**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, 2007**

	<b>Budget</b>			<b>Variance favorable (unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Taxes				
Property	\$ 281,007	\$ 272,568	\$ 272,568	\$ -
Sales	500	134,740	127,214	(7,526)
Interest	20,950	21,186	21,881	695
Net change in fair value of investments	-	(6,968)	9,034	16,002
	<u>\$ 302,457</u>	<u>\$ 421,526</u>	<u>\$ 430,697</u>	<u>\$ 9,171</u>
<b>EXPENDITURES</b>				
Community development				
Miscellaneous	\$ 1,655	\$ 2,560	\$ 2,565	\$ 5
Debt service				
Principal	365,000	365,000	365,000	-
Interest	108,575	108,575	108,575	-
	<u>\$ 475,230</u>	<u>\$ 476,135</u>	<u>\$ 476,140</u>	<u>\$ (5)</u>
Deficiency of revenues over expenditures			\$ (45,443)	
<b>OTHER FINANCING SOURCES</b>				
Operating transfers in	\$ 166,000	\$ 54,609	70,609	\$ 16,000
	<u>\$ 166,000</u>	<u>\$ 54,609</u>	<u>70,609</u>	<u>\$ 16,000</u>
Excess of revenues and other financing sources over expenditures and other financing uses			25,166	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(543,360)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (518,194)</u>	

**CITY OF STERLING, ILLINOIS**  
**MOTOR FUEL TAX FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Intergovernmental				
Motor fuel tax	\$ 456,000	\$ 457,000	\$ 457,485	\$ 485
Interest	8,000	35,000	36,924	1,924
Other	<u>10,000</u>	<u>549,164</u>	<u>550,164</u>	<u>1,000</u>
Total revenues	<u>\$ 474,000</u>	<u>\$ 1,041,164</u>	<u>\$ 1,044,573</u>	<u>\$ 3,409</u>
<b>EXPENDITURES</b>				
Public works and transportation				
General maintenance	\$ 156,000	\$ 176,000	\$ 214,666	\$ (38,666)
Street/traffic lights	50,000	50,000	50,000	-
Bumps and blowout repairs	20,000	20,000	-	20,000
LED sign conversion	20,000	-	9,875	(9,875)
Other	-	750	751	(1)
Debt service				
Principal	105,000	105,000	105,000	-
Interest	49,470	49,470	49,470	-
Capital outlay	<u>850,000</u>	<u>851,648</u>	<u>768,000</u>	<u>83,648</u>
Total expenditures	<u>\$ 1,250,470</u>	<u>\$ 1,252,868</u>	<u>\$ 1,197,762</u>	<u>\$ 55,106</u>
Deficiency of revenues over expenditures			\$ (153,189)	
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(153,189)	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>615,294</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 462,105</u>	

**CITY OF STERLING, ILLINOIS**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**April 30, 2007**

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**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**

The following major fund had an excess of disbursements over appropriations:

	<u>Actual</u>	<u>Budget</u>
Rock River Tax Increment Allocation Fund	\$700,164	\$585,878
CBD Tax Increment Allocation Fund	476,140	476,135

**SUPPLEMENTAL INFORMATION**

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING BALANCE SHEET  
April 30, 2007

	Special Revenue										Debt Service			Capital Project		
	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	Infrastructure Fund	Total		
<b>ASSETS</b>																
Cash	\$ 230,418	\$ 52,524	\$ 83,954	\$ 30,032	\$ 93,371	\$ 58,003	\$ 2,791	\$ 14,350	\$ 29,804	\$ 64,110	\$ 39,921	\$ 5,266	\$ -	\$ 704,544		
Investments	472,788	-	555,926	-	531,961	-	34,355	-	-	-	-	-	-	1,595,030		
Receivables (net, where applicable of allowances for uncollectibles)																
Taxes	388,519	60,868	-	80,961	95,511	199,925	12,141	-	-	80,683	-	-	-	918,608		
Intergovernmental	19,298	2,186	-	3,324	-	918	776	-	-	-	-	-	-	26,502		
Accounts	-	-	-	1,985	-	-	-	-	-	-	-	-	-	1,985		
Notes	-	-	43,870	-	-	-	-	-	-	-	-	-	-	43,870		
Interest	3,719	-	8,022	-	2,592	-	126	-	-	-	-	-	-	14,459		
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	402,500	-	402,500		
<b>TOTAL ASSETS</b>	<b>\$ 1,114,742</b>	<b>\$ 115,578</b>	<b>\$ 691,772</b>	<b>\$ 116,302</b>	<b>\$ 723,435</b>	<b>\$ 258,846</b>	<b>\$ 50,189</b>	<b>\$ 14,350</b>	<b>\$ 29,804</b>	<b>\$ 144,793</b>	<b>\$ 39,921</b>	<b>\$ 5,266</b>	<b>\$ 402,500</b>	<b>\$ 3,707,498</b>		
<b>LIABILITIES</b>																
Accounts payable	\$ 15,924	\$ 23	\$ 3,705	\$ 4,174	\$ -	\$ -	\$ 139	\$ -	\$ -	\$ -	\$ -	\$ 1,144	\$ -	\$ 25,109		
Accrued payroll	4,301	4,584	-	812	-	-	-	-	-	-	-	-	-	9,697		
Deposits	-	-	11,287	-	-	-	-	-	-	-	-	-	-	11,287		
Deferred revenues	388,519	60,868	-	80,961	95,511	199,925	12,141	-	-	80,683	-	-	-	918,608		
Total liabilities	408,744	65,475	14,992	85,947	95,511	199,925	12,280	-	-	80,683	-	1,144	-	964,701		
<b>FUND BALANCE</b>																
Reserved	-	-	-	-	-	-	-	-	-	-	-	-	402,500	402,500		
Unreserved	705,998	50,103	676,780	30,355	627,924	58,921	37,909	14,350	29,804	64,110	39,921	4,122	-	2,340,297		
Total fund balance	705,998	50,103	676,780	30,355	627,924	58,921	37,909	14,350	29,804	64,110	39,921	4,122	402,500	2,742,797		
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,114,742</b>	<b>\$ 115,578</b>	<b>\$ 691,772</b>	<b>\$ 116,302</b>	<b>\$ 723,435</b>	<b>\$ 258,846</b>	<b>\$ 50,189</b>	<b>\$ 14,350</b>	<b>\$ 29,804</b>	<b>\$ 144,793</b>	<b>\$ 39,921</b>	<b>\$ 5,266</b>	<b>\$ 402,500</b>	<b>\$ 3,707,498</b>		



**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**April 30, 2007**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash	\$ 20,102	\$ 9,938	\$ 30,040
Accounts receivable	-	5,544	5,544
Accrued interest receivable	28,534	19,833	48,367
Investments, at fair value	<u>10,893,440</u>	<u>11,018,000</u>	<u>21,911,440</u>
<b>TOTAL ASSETS</b>	<u>10,942,076</u>	<u>11,053,315</u>	<u>21,995,391</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 10,942,076</u>	<u>\$ 11,053,315</u>	<u>\$ 21,995,391</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**Year Ended April 30, 2007**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 333,689	\$ 266,354	\$ 600,043
Plan members	147,016	111,520	258,536
Total contributions	<u>480,705</u>	<u>377,874</u>	<u>858,579</u>
Investment income			
Interest earned	349,073	298,011	647,084
Net change in fair value	574,458	591,538	1,165,996
Total investment income	<u>923,531</u>	<u>889,549</u>	<u>1,813,080</u>
Other revenue	25	217	242
Total additions	<u>1,404,261</u>	<u>1,267,640</u>	<u>2,671,901</u>
<b>DEDUCTIONS</b>			
Administrative	42,311	15,556	57,867
Benefits	552,540	558,049	1,110,589
Total deductions	<u>594,851</u>	<u>573,605</u>	<u>1,168,456</u>
<b>NET INCREASE</b>	<u>809,410</u>	<u>694,035</u>	<u>1,503,445</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>			
<b>BENEFITS, BEGINNING OF YEAR</b>	<u>10,132,666</u>	<u>10,359,280</u>	<u>20,491,946</u>
<b>NET ASSETS HELD IN TRUST FOR</b>			
<b>PENSION BENEFITS, END OF YEAR</b>	<u>\$ 10,942,076</u>	<u>\$ 11,053,315</u>	<u>\$ 21,995,391</u>

**OTHER INFORMATION**



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH STATE OF ILLINOIS PUBLIC ACT 85-1142

Illinois Department of Revenue  
Springfield, Illinois

We have audited the basic financial statements of the City of Sterling, Illinois for the year ended April 30, 2007, and have issued our report thereon dated September 17, 2006. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on the eligibility for costs incurred incidental to the implementation of the redevelopment plan and redevelopment projects associated with the Downtown Redevelopment TIF district pursuant to Subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act.

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

The City of Sterling, Illinois' management is responsible for the government's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the government's compliance with State of Illinois Public Act 85-1142, "An Act in Relation to Tax Increment Financing".

The results of our test indicate that for the items tested, the City of Sterling, Illinois complied with Subsection (q) of Section 11-74.4-3 of Public Act 85-1142.

*Lindgren, Callihan, Van Osdol & Co., Ltd.*

Rockford, Illinois  
September 17, 2007