

CITY OF STERLING, ILLINOIS



BASIC FINANCIAL STATEMENTS

April 30, 2008



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, 2008, 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, 2008, 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 20, 2008, 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 Management's Discussion and Analysis on pages 5 - 16, the Schedule of Funding Progress on page 73 and budgetary comparison on pages 74 through 79 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.

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.

Sindgen, Callahan, Van Dordt & Co., Ltd.

Rockford, Illinois
September 20, 2008



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, 2008, and have issued our report thereon dated September 20, 2008. 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. While the City's size may preclude complete segregation of duties, you should be aware of this situation.

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.

Sindgen, Celloran, Van Dordt & Co., P.C.

Rockford, Illinois
September 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF STERLING, ILLINOIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Sterling's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended April 30, 2008. It should be read in conjunction with the City's financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,509,693 (net assets). Of this amount, \$10,529,731 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,026,127 from the prior year. The net assets of the City's business-type activities increased by \$265,258, or 2.7%, and the net assets of the City's governmental activities increased by \$2,760,869, or 16.5%.
- In the City's governmental activities, revenues increased \$480,723, or 3.4%, and expenses increased \$320,369, or 2.7%.
- In the City's business-type activities, revenues increased \$296,166, or 14.5%, and expenses increased \$204,423, or 10.6%.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,958,244, or 79.9% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

CITY OF STERLING, ILLINOIS MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works and transportation, community development, and culture and recreation. The business-type activities of the City include sewer and solid waste operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate medical center for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

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

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

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

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Rock River Tax Increment Allocation Fund, CDB Tax Increment Allocation Fund, and Motor Fuel Tax Fund, all of which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in these financial statements.

CITY OF STERLING, ILLINOIS MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and solid waste operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its health insurance. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

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

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

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

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

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

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$29,509,693 at the close of the most recent fiscal year. This analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities, as summarized in the following tables.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The largest portion of the City's net assets (56.6%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Condensed Statement of Net Assets
(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2007 - FY 2008
Current and other assets	\$ 15.5	\$ 14.2	\$ 2.7	\$ 2.6	\$ 18.2	\$ 16.8	8.3%
Capital assets	18.5	10.7	9.7	9.8	28.2	20.5	37.6%
Total assets	<u>\$ 34.0</u>	<u>\$ 24.9</u>	<u>\$ 12.4</u>	<u>\$ 12.4</u>	<u>\$ 46.4</u>	<u>\$ 37.3</u>	24.4%
Long-term liabilities outstanding	\$ 9.6	\$ 10.4	\$ 2.2	\$ 2.4	\$ 11.8	\$ 12.8	-7.8%
Other liabilities	4.9	5.7	0.1	0.2	5.0	5.9	-15.3%
Total liabilities	<u>\$ 14.5</u>	<u>\$ 16.1</u>	<u>\$ 2.3</u>	<u>\$ 2.6</u>	<u>\$ 16.8</u>	<u>\$ 18.7</u>	-10.2%
Net assets:							
Invested in capital assets, net of debt	\$ 9.2	\$ 8.9	\$ 7.5	\$ 7.4	\$ 16.7	\$ 16.3	2.5%
Restricted	2.4	1.4	-	-	2.4	1.4	71.4%
Unrestricted (deficit)	7.9	(1.5)	2.6	2.4	10.5	0.9	1066.7%
Total net assets	<u>\$ 19.5</u>	<u>\$ 8.8</u>	<u>\$ 10.1</u>	<u>\$ 9.8</u>	<u>\$ 29.6</u>	<u>\$ 18.6</u>	59.1%

An additional portion of the City's net assets (7.7%) represent resources that are subject to external restrictions on how they may be used. There was an increase of \$764,436 in restricted net assets reported in connection with the City's governmental funds. A majority of this increase (\$498,675) resulted from the receipt of the Northwestern Steel and Wire Company bankruptcy settlement, which is restricted to be spent on the economic development of the City and adjacent areas in response to Northwestern Steel and Wire Company's closure and cessation of operations.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The remaining balance of *unrestricted net assets* (\$10,529,731, or 35.7% of total net assets) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$9,460,988 in unrestricted net assets reported in connection with the City's governmental funds. A majority of this increase (\$7,846,114) resulted from a prior period adjustment to retroactively report infrastructure in accordance with the Governmental Accounting Standards Board Statement Number 34.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$10,872,241 during the current fiscal year. Approximately 72% of this increase represents the prior period adjustment to retroactively report infrastructure. The remainder of this growth largely reflects the receipt of the Northwestern Steel and Wire Company bankruptcy settlement and increases in rates for sewer and garbage operations, personal property replacement taxes, and income taxes.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Condensed Statement of Activities
(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2007 - FY 2008</u>
Revenues:							
Program revenues:							
Charges for services	\$ 1.7	\$ 1.5	\$ 2.1	\$ 1.9	\$ 3.8	\$ 3.4	11.8%
Operating grants and contributions	0.4	0.4	-	-	0.4	0.4	0.0%
Capital grants and contributions	0.3	0.3	-	-	0.3	0.3	0.0%
General revenues:							
Property taxes	3.1	3.1	-	-	3.1	3.1	0.0%
Other taxes	7.3	7.1	0.1	0.1	7.4	7.2	2.8%
Other	2.0	1.9	0.1	-	2.1	1.9	10.5%
Total revenues	<u>14.8</u>	<u>14.3</u>	<u>2.3</u>	<u>2.0</u>	<u>17.1</u>	<u>16.3</u>	4.9%
Program expenses:							
General government	1.8	2.2	-	-	1.8	2.2	-18.2%
Public safety	4.1	4.0	-	-	4.1	4.0	2.5%
Public works and transportation	3.0	2.3	-	-	3.0	2.3	30.4%
Community development	0.7	0.7	-	-	0.7	0.7	0.0%
Culture and recreation	0.6	0.6	-	-	0.6	0.6	0.0%
Other	1.4	1.4	-	-	1.4	1.4	0.0%
Interest on long-term debt	0.4	0.5	-	-	0.4	0.5	-20.0%
Sewer	-	-	1.5	1.4	1.5	1.4	7.1%
Solid waste	-	-	0.5	0.5	0.5	0.5	0.0%
Total expenses	<u>12.0</u>	<u>11.7</u>	<u>2.0</u>	<u>1.9</u>	<u>14.0</u>	<u>13.6</u>	2.9%
Increase in net assets	2.8	2.6	0.3	0.1	3.1	2.7	14.8%
Net assets, beginning of year, as restated	<u>16.7</u>	<u>6.2</u>	<u>9.8</u>	<u>9.7</u>	<u>26.5</u>	<u>15.9</u>	66.7%
Net assets, end of year	<u>\$ 19.5</u>	<u>\$ 8.8</u>	<u>\$ 10.1</u>	<u>\$ 9.8</u>	<u>\$ 29.6</u>	<u>\$ 18.6</u>	59.1%

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental activities increased the City's net assets by \$2,760,869, thereby accounting for 90% of the total growth in net assets. The increase in governmental net assets was approximately 7% over the prior year. Key elements of this increase are as follows:

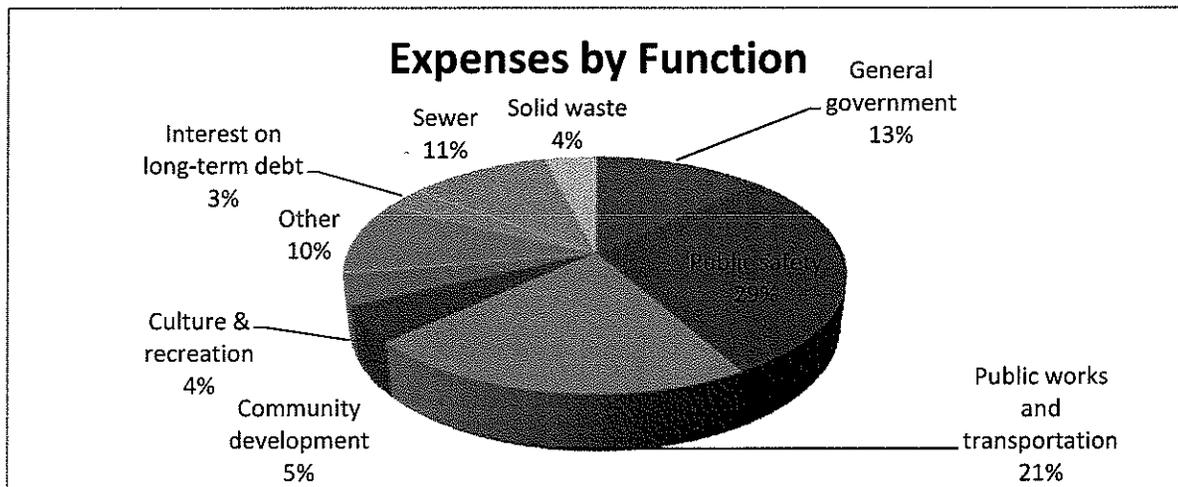
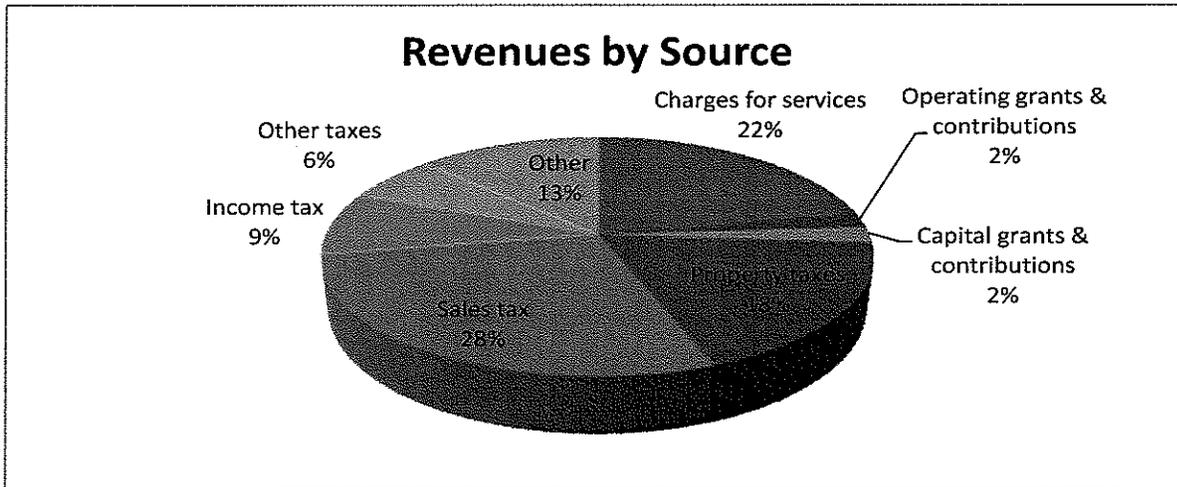
- Governmental revenues increase by approximately 4%, which was mainly due to normal increases in taxes and charges for services, as well as the receipt of the Northwestern Steel and Wire Company bankruptcy settlement.
- Governmental expenses increased by approximately 3%, which, for the most part closely parallels inflation. One noteworthy exception, however, was the City's public works and transportation function. In that instance, the growth in expenses by \$668,005, or approximately 30%, reflects both the cost of additional salt, snow plowing, and road repairs necessitated by an unusually harsh winter and the increase in fuel prices from the prior year. The increase in the public works and transportation function was partially offset by a decrease of \$401,549 (or approximately 18%) in the City's general government function. This decrease was mainly due to a significant drop in the amount of health insurance claims compared to the prior year.

Business-type activities increased the City's net assets by \$265,258, accounting for approximately 10% of the total growth in net assets. Key elements of this increase are as follows:

- Business-type revenues increased by approximately 15%. A majority of this growth (80%) was due to rate increases in both sewer (2% rate increase) and garbage (21% rate increase) charges.
- Business-type expenses increased by approximately 5%. This increase was partially due to inflation and partially due to increases in the Sewer Fund's portion of health insurance and retirement costs.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

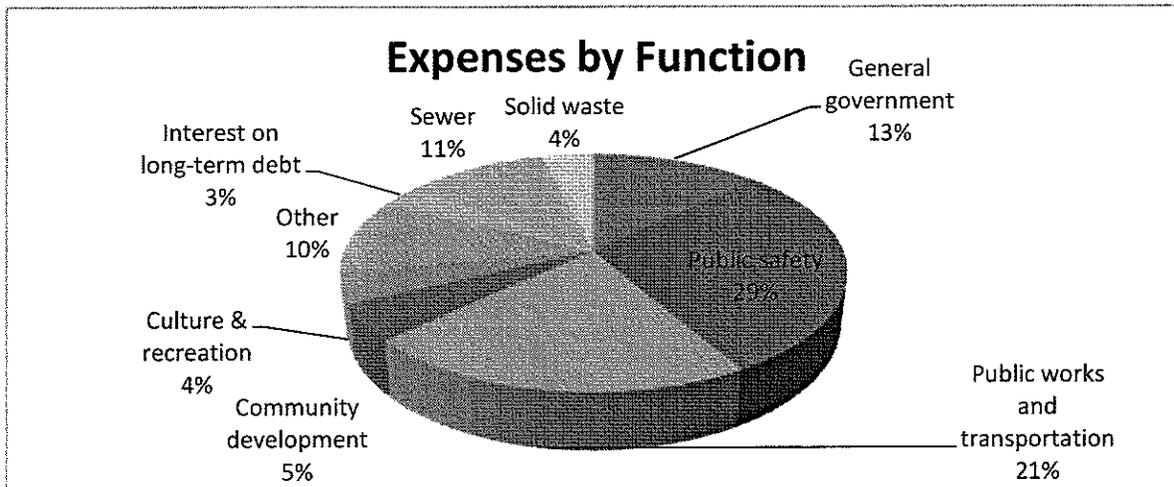
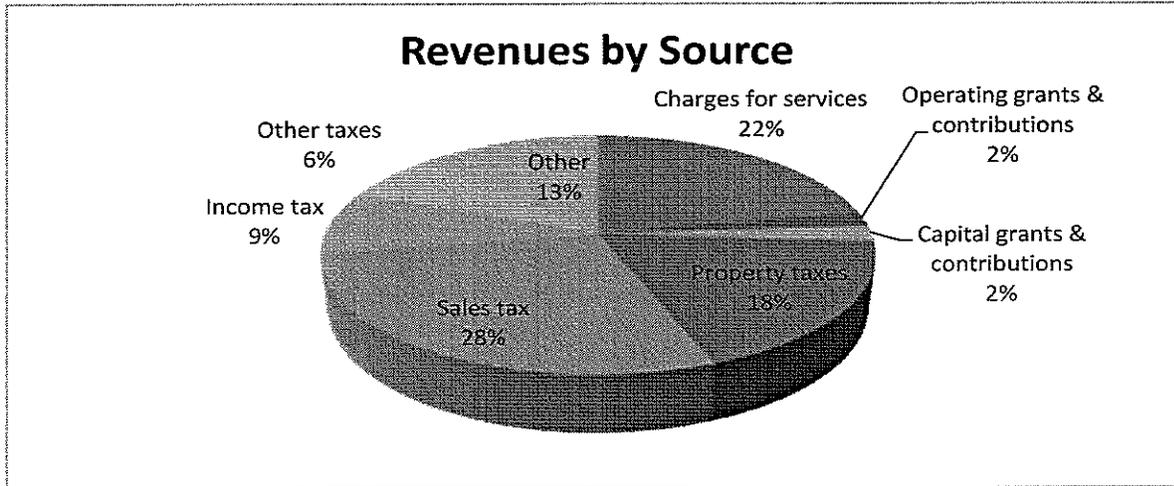


The City receives approximately 68% of its total revenues from sales tax, charges for services, and property taxes. The remaining 32% of revenues are derived from income and other taxes, operating and capital grants and contributions, and other revenues.

During the current fiscal year, 50% of the City's expenses were for public safety and public works and transportation. Expenses for general government, sewer operations, and other activities were all between 10% and 13% of total costs, while community development, culture and recreation, solid waste, and interest expenses made up the bottom 16% of all costs.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



The City receives approximately 68% of its total revenues from sales tax, charges for services, and property taxes. The remaining 32% of revenues are derived from income and other taxes, operating and capital grants and contributions, and other revenues.

During the current fiscal year, 50% of the City's expenses were for public safety and public works and transportation. Expenses for general government, sewer operations, and other activities were all between 10% and 13% of total costs, while community development, culture and recreation, solid waste, and interest expenses made up the bottom 16% of all costs.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,623,555, an increase of \$1,402,870 in comparison with the prior year. Approximately 96% of this total amount (\$10,160,120) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for a variety of restricted purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,958,244, while the total fund balance reached \$8,019,179. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 79.9% of total General Fund expenditures, while total fund balance represents 80.5% of that same amount.

The fund balance of the City's General Fund increased by \$694,964 during the current fiscal year, which is 3.8% more than the prior year's fund balance increase of \$669,830. This slight increase between years was due to a 2% increase in General Fund revenues that were offset by only a 1% increase in expenditures.

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

Unrestricted net assets of the Sewer Fund at the end of the year amounted to \$2,342,944, and those for the Solid Waste Fund amounted to \$260,472. The total growth in net assets for both funds was \$251,414 and \$13,844, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$72,844, or .7% decrease in appropriations) and can be briefly summarized as follows:

- \$15,253 in miscellaneous decreases in general government activities
- \$36,540 in miscellaneous decreases in public safety
- \$89,931 in increases allocated to public works and transportation (mainly the result of the cost of additional salt, snow plowing, and road repairs necessitated by an unusually harsh winter)
- \$10,320 in miscellaneous decreases in community development activities
- \$135,408 in decreases for other expenditures (mainly due to large portions of the riverfront redevelopment and coliseum study being pushed into the next fiscal year)
- \$65,291 in increases to debt service (mainly the result of the street sweeper loan)
- \$30,536 in miscellaneous decreases in capital outlay

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2008, amounts to \$28,196,503 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, and infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year (not including the prior period adjustment for retroactive infrastructure reporting) was .7% (a .1% decrease for governmental activities and a 1% decrease for business-type activities). The main reason for the decrease was that current depreciation expense exceeded current asset purchases less dispositions. See the notes to the financial statements for more information regarding capital assets.

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

- The Freeport Road Reconstruction Project was completed at a total cost of \$1,040,713.
- Streetscape Phase VI was completed at a total cost of \$511,260.
- A new street sweeper was purchased for the Public Works Department for \$148,958
- The sewer extension from Lynn Boulevard to East 28th Street was completed at a total cost of \$138,051.

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration (Continued)

**Capital Assets at Year End
(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2007 - FY 2008
Land	\$ 1.0	\$ 1.0	\$ -	\$ -	\$ 1.0	\$ 1.0	0.0%
Construction in progress	-	1.1	-	-	-	1.1	-100.0%
Buildings and equipment	5.8	5.4	7.0	6.8	12.8	12.2	4.9%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	21.0	19.3	10.3	10.3	31.3	29.6	5.7%
Subtotal	28.6	27.6	17.3	17.1	45.9	44.7	2.7%
Less: accumulated depreciation	10.1	9.0	7.7	7.4	17.8	16.4	8.5%
Total	<u>\$ 18.5</u>	<u>\$ 18.6</u>	<u>\$ 9.6</u>	<u>\$ 9.7</u>	<u>\$ 28.1</u>	<u>\$ 28.3</u>	-0.7%

Long-term debt. At the end of the current fiscal year, the City had \$11,823,014 in bonds, notes, and leases outstanding, which is a decrease of \$985,168, or 8%, over the prior year. The only new debt issued by the City during the current fiscal year was a capital lease to purchase a street sweeper for \$148,958. See the notes to the financial statements for more information regarding long-term debt.

**Outstanding Debt at Year End
(in millions)**

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2007 - FY 2008
Bonds payable	\$ 9.0	\$ 9.7	\$ -	\$ -	\$ 9.0	\$ 9.7	-7.2%
Leases payable	0.3	0.3	-	-	0.3	0.3	0.0%
Loans payable	-	-	2.2	2.4	2.2	2.4	-8.3%
Redevelopment agreements	0.3	0.4	-	-	0.3	0.4	-25.0%
Total	<u>\$ 9.6</u>	<u>\$ 10.4</u>	<u>\$ 2.2</u>	<u>\$ 2.4</u>	<u>\$ 11.8</u>	<u>\$ 12.8</u>	-7.8%

**CITY OF STERLING, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration (Continued)

The City maintains an "AA/A-1+" rating from Standard & Poor's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8.625% of its total assessed valuation. The current debt limit for the City is \$14,209,955, which is significantly in excess of the City's outstanding general obligation debt of \$335,262.

Economic Factors and Next Year's Budgets and Rates

The City's Council and staff considered many factors while preparing the fiscal year 2009 budget. One concern taken into consideration while preparing the budget is the status of the economy, which takes into account the following:

- The weakening of the economy and declines in the market resulting in lower investment returns and restricting access to capital.
- Rising fuel costs that result in higher costs of most tangible items (e.g., supplies).
- Plant and equipment needs for replacement of aged equipment.

Amounts available for appropriation in the General Fund budget for the 2009 fiscal year are \$10,791,608, an increase of 2.9% over the final fiscal year 2008 budget of \$10,489,583. Small increases in property and sales taxes are expected to lead this increase. The City will use these increases in revenues to finance programs that are currently offered and the expected impact of inflation on program costs.

Budgeted expenditures in the General Fund are expected to increase \$503,695, or approximately 5%, to \$10,675,044. The largest increments are increased wages and cost-of-living adjustments of \$263,750 (52.4% of increase) and capital and infrastructure costs of \$184,885 (36.7% of increase).

If these estimates are realized, the City's budgetary General Fund balance is expected to increase slightly (\$116,564) by the close of fiscal year 2009.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF STERLING, ILLINOIS
STATEMENT OF NET ASSETS
April 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash	\$ 929,106	\$ 59,000	\$ 988,106	\$ 7,973,601
Restricted cash	-	26,864	26,864	-
Investments	9,103,768	2,022,867	11,126,635	-
Taxes receivable	3,416,327	-	3,416,327	-
Intergovernmental receivables	1,448,569	15,512	1,464,081	-
Accounts receivable (net of allowance for uncollectibles)	177,847	213,669	391,516	14,878,945
Notes receivable (net of allowance for uncollectibles)	43,870	-	43,870	-
Interest receivable	31,393	20,019	51,412	117,510
Other receivables	-	-	-	638,965
Estimated third-party payor settlements	-	-	-	1,338,290
Due from unconsolidated investees	-	-	-	64,094
Inventories	60,935	-	60,935	1,508,360
Internal balances	-	403,241	403,241	-
Prepaid expenses	-	-	-	1,554,247
Net pension asset	123,677	-	123,677	-
Other assets	64,555	-	64,555	-
Capital assets:				
Land and construction in progress	1,038,144	217,077	1,255,221	-
Infrastructure, net	14,010,896	-	14,010,896	-
Other capital assets, net	3,486,830	9,443,556	12,930,386	73,492,272
Assets limited as to use	-	-	-	18,829,383
Unamortized bond issue costs	-	-	-	216,529
Investment in real estate	-	-	-	2,119,894
Net equity in unconsolidated investees	-	-	-	4,048,299
Net equity in component units	-	-	-	3,341,378
Total assets	<u>33,935,917</u>	<u>12,421,805</u>	<u>46,357,722</u>	<u>130,121,767</u>
LIABILITIES				
Accounts payable	387,672	112,417	500,089	3,693,573
Claims payable	73,210	-	73,210	-
Accrued payroll	63,601	4,778	68,379	-
Accrued interest	106,843	12,809	119,652	-
Deposits	12,242	-	12,242	-
Internal balances	403,241	-	403,241	-
Deferred revenue	3,459,027	-	3,459,027	-
Estimated third-party payor settlements	-	-	-	2,900,176
Other current liabilities	-	-	-	9,113,729
Accrued compensated absences	361,423	27,752	389,175	-
Long-term liabilities:				
Due within one year	783,427	204,589	988,016	695,421
Due in more than one year	8,835,121	1,999,877	10,834,998	26,166,464
Total liabilities	<u>14,485,807</u>	<u>2,362,222</u>	<u>16,848,029</u>	<u>42,569,363</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,245,322	7,456,167	16,701,489	61,726,249
Restricted for:				
Special revenue	1,559,823	-	1,559,823	-
Debt service	76,597	-	76,597	2,564,301
Capital repairs and replacements	-	-	-	13,585,547
Health development	-	-	-	2,679,535
Capital projects	642,053	-	642,053	-
Unrestricted	<u>7,926,315</u>	<u>2,603,416</u>	<u>10,529,731</u>	<u>6,996,772</u>
Total net assets	<u>\$ 19,450,110</u>	<u>\$ 10,059,583</u>	<u>\$ 29,509,693</u>	<u>\$ 87,552,404</u>

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

CITY OF STERLING, ILLINOIS
STATEMENT OF ACTIVITIES
April 30, 2008

	Program Revenues			Net (Expense) Revenue and Change in Net Assets			Component Unit	
	Expenses	Operating		Governmental Activities	Primary Government Business-Type Activities			Total
		Charges for Services	Grants and Contributions		Capital Grants and Contributions	Governmental Activities		
FUNCTIONS/PROGRAMS								
Primary government								
Governmental activities:								
General government	\$ 1,796,514	\$ 1,261,660	\$ -	\$ (534,854)	\$ -	\$ (534,854)	\$ -	
Public safety	4,101,137	273,293	63,770	(3,680,589)	-	(3,680,589)	-	
Public works and transportation	3,019,177	5,000	250,000	(2,764,177)	-	(2,764,177)	-	
Community development	705,999	93,256	-	(461,368)	-	(461,368)	-	
Culture and recreation	591,027	22,423	32,000	(423,737)	-	(423,737)	-	
Other	1,406,930	-	-	(1,406,930)	-	(1,406,930)	-	
Interest on long-term debt	438,618	-	-	(438,618)	-	(438,618)	-	
Total governmental activities	<u>12,059,402</u>	<u>1,650,632</u>	<u>345,770</u>	<u>(9,710,273)</u>	<u>-</u>	<u>(9,710,273)</u>	<u>-</u>	
Business-type activities:								
Sewer	1,519,644	-	-	-	140,545	140,545	-	
Solid waste	550,388	465,988	-	-	(84,400)	(84,400)	-	
Total business-type activities	<u>2,070,032</u>	<u>2,126,177</u>	<u>-</u>	<u>-</u>	<u>56,145</u>	<u>56,145</u>	<u>-</u>	
Total primary government	<u>\$ 14,129,434</u>	<u>\$ 3,776,809</u>	<u>\$ 345,770</u>	<u>\$ (9,710,273)</u>	<u>\$ 56,145</u>	<u>\$ (9,654,128)</u>	<u>\$ -</u>	
Component unit								
CGH Medical Center	\$ 103,972,980	\$ 96,357,409	\$ 508,198	\$ -	\$ -	\$ (7,107,373)	\$ -	

General Revenues:

Property taxes, levied for general purposes	3,122,972	-	-	3,122,972	-
Sales tax	4,808,760	-	-	4,808,760	-
Personal property replacement tax	570,392	83,491	-	653,883	-
Income tax and surcharge	1,469,398	-	-	1,469,398	-
Fire protection revenue	181,743	-	-	181,743	-
Motor fuel tax	440,179	-	-	440,179	-
Investment income	532,434	-	-	532,434	-
Increase in net equity in unconsolidated investees	-	-	121,330	-	1,579,565
Other	1,315,707	28,169	-	1,343,876	1,028,783
Special item - gain (loss) on disposal of asset	4,557	1,123	-	5,680	4,901,788
Transfers - internet activity	25,000	(25,000)	-	-	(721,275)
Total general revenues and transfers	<u>12,471,142</u>	<u>209,113</u>	<u>121,330</u>	<u>12,680,255</u>	<u>6,788,861</u>
Change in net assets	2,760,869	265,258	-	3,026,127	(318,512)

**NET ASSETS, BEGINNING OF YEAR,
AS RESTATED**

	16,689,241	9,794,325	26,483,566	87,870,916
NET ASSETS, END OF YEAR	<u>\$ 19,450,110</u>	<u>\$ 10,059,583</u>	<u>\$ 29,509,693</u>	<u>\$ 87,552,404</u>

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

CITY OF STERLING, ILLINOIS
BALANCE SHEET - GOVERNMENTAL FUNDS
 April 30, 2008

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Motor Fuel Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 17,462	\$ -	\$ -	\$ -	\$ 649,167	\$ 666,629
Investments	6,005,191	520,577	399,933	557,677	1,620,390	9,103,768
Receivables						
Taxes	1,837,995	375,851	279,944	-	922,537	3,416,327
Intergovernmental	1,314,258	9,941	22,242	35,295	66,833	1,448,569
Accounts receivable	100,788	74,789	-	-	2,270	177,847
Notes	-	-	-	-	43,870	43,870
Interest	15,081	-	666	-	15,646	31,393
Inventories	60,935	-	-	-	-	60,935
Due from other funds	847,684	-	-	-	1,107,951	1,955,635
TOTAL ASSETS	\$ 10,199,394	\$ 981,158	\$ 702,785	\$ 592,972	\$ 4,428,664	\$ 16,904,973
LIABILITIES						
Accounts payable	\$ 241,590	\$ 7,906	\$ -	\$ 112,768	\$ 25,408	\$ 387,672
Accrued payroll	54,410	-	-	-	9,191	63,601
Deposits	3,520	-	-	-	8,722	12,242
Due to other funds	-	1,375,870	891,692	80,000	11,314	2,358,876
Deferred revenue	1,880,695	375,851	279,944	-	922,537	3,459,027
Total liabilities	<u>2,180,215</u>	<u>1,759,627</u>	<u>1,171,636</u>	<u>192,768</u>	<u>977,172</u>	<u>6,281,418</u>
FUND EQUITY						
Fund balance						
Reserved	60,935	-	-	-	402,500	463,435
Unreserved						
General	7,958,244	-	-	-	-	7,958,244
Special revenue	-	(778,469)	(468,851)	400,204	2,330,342	1,483,226
Debt service	-	-	-	-	76,597	76,597
Capital project	-	-	-	-	642,053	642,053
Total fund equity	<u>8,019,179</u>	<u>(778,469)</u>	<u>(468,851)</u>	<u>400,204</u>	<u>3,451,492</u>	<u>10,623,555</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,199,394	\$ 981,158	\$ 702,785	\$ 592,972	\$ 4,428,664	\$ 16,904,973

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

CITY OF STERLING, ILLINOIS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
April 30, 2008

Total governmental fund balances \$ 10,623,555

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 \$10,434,442 18,535,870

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General obligations bonds payable	(4,440,000)
Tax increment bonds payable	(4,040,000)
Special service area bonds payable	(493,832)
Notes payable	(316,716)
Redevelopment agreements payable	(328,000)
Net pension asset	123,677
Compensated absences	(361,423)

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. (106,843)

Bond issue costs are reported as expenditures in the governmental funds. The cost is \$92,221 and accumulated amortization is \$27,666. 64,555

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	\$ 262,477	
Liabilities	<u>(73,210)</u>	<u>189,267</u>

Total net assets - governmental activities \$ 19,450,110

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

CITY OF STERLING, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
April 30, 2008

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Motor Fuel Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 6,104,664	\$ 351,390	\$ 413,457	\$ -	\$ 1,062,221	\$ 7,931,732
Intergovernmental	2,203,963	105,925	-	440,179	208,937	2,959,004
Licenses and permits	754,575	-	-	-	-	754,575
Fines and penalties	273,293	-	-	-	-	273,293
Charges for services	58,457	-	-	-	145,923	204,380
Investment income	340,805	22,782	31,400	22,141	111,392	528,520
Donations	313,120	-	-	-	88,085	401,205
Other	545,795	57,874	-	-	712,038	1,315,707
Total revenues	<u>10,594,672</u>	<u>537,971</u>	<u>444,857</u>	<u>462,320</u>	<u>2,328,596</u>	<u>14,368,416</u>
EXPENDITURES						
Current						
General government	438,182	-	-	-	455,451	893,633
Public safety	3,912,145	-	-	-	27,501	3,939,646
Public works and transportation	1,947,477	-	-	321,669	3,761	2,272,907
Community development	244,265	219,230	2,559	-	227,155	693,209
Culture and recreation	-	-	-	-	618,560	618,560
Other	2,291,415	-	-	-	-	2,291,415
Debt service						
Principal	169,947	105,000	315,000	110,000	235,853	935,800
Interest	13,435	201,972	93,955	46,373	86,967	442,702
Capital outlay	945,789	-	-	71,799	38,601	1,056,189
Total expenditures	<u>9,962,655</u>	<u>526,202</u>	<u>411,514</u>	<u>549,841</u>	<u>1,693,849</u>	<u>13,144,061</u>
Excess (deficiency) of revenues over expenditures	<u>632,017</u>	<u>11,769</u>	<u>33,343</u>	<u>(87,521)</u>	<u>634,747</u>	<u>1,224,355</u>
OTHER FINANCING SOURCES (USES)						
Bond/loan proceeds	148,958	-	-	-	-	148,958
Sale of property	2,790	-	-	-	1,767	4,557
Operating transfers in	25,000	-	16,000	-	97,801	138,801
Operating transfers out	(113,801)	-	-	-	-	(113,801)
Total other financing sources (uses)	<u>62,947</u>	<u>-</u>	<u>16,000</u>	<u>-</u>	<u>99,568</u>	<u>178,515</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	694,964	11,769	49,343	(87,521)	734,315	1,402,870
FUND BALANCE (DEFICIT), BEGINNING OF YEAR, AS RESTATED						
	<u>7,324,215</u>	<u>(790,238)</u>	<u>(518,194)</u>	<u>487,725</u>	<u>2,717,177</u>	<u>9,220,685</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 8,019,179</u>	<u>\$ (778,469)</u>	<u>\$ (468,851)</u>	<u>\$ 400,204</u>	<u>\$ 3,451,492</u>	<u>\$ 10,623,555</u>

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

CITY OF STERLING, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
April 30, 2008

Net change in fund balances - total governmental funds \$ 1,402,870

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. (21,640)

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	\$ (148,958)	
Payments	935,800	
Change in compensated absences	(2,174)	
Change in net pension obligation	184,137	
Accrued interest	<u>4,084</u>	972,889

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	<u>415,972</u>
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Change in net assets of governmental activities \$ 2,760,869

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

CITY OF STERLING, ILLINOIS
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
April 30, 2008

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ -	\$ 59,000	\$ 59,000	\$ 262,477
Restricted cash	26,864	-	26,864	-
Investments	1,844,313	178,554	2,022,867	-
Intergovernmental receivable	-	15,512	15,512	-
Accounts receivable (net of allowance for doubtful accounts of \$58,500 for Sewer and \$6,500 for Solid Waste)	164,271	49,398	213,669	-
Accrued interest	19,159	860	20,019	-
Due from other funds	403,241	-	403,241	-
Total current assets	<u>2,457,848</u>	<u>303,324</u>	<u>2,761,172</u>	<u>262,477</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	6,948,316	-	6,948,316	-
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	68,479	-	68,479	-
	<u>17,405,732</u>	<u>-</u>	<u>17,405,732</u>	<u>-</u>
Accumulated depreciation	7,745,099	-	7,745,099	-
Total capital assets (net of accumulated depreciation)	<u>9,660,633</u>	<u>-</u>	<u>9,660,633</u>	<u>-</u>
TOTAL ASSETS	<u>12,118,481</u>	<u>303,324</u>	<u>12,421,805</u>	<u>262,477</u>
LIABILITIES				
Current liabilities				
Accounts payable	74,422	37,995	112,417	-
Claims payable	-	-	-	73,210
Accrued payroll	4,486	292	4,778	-
Accrued vacation	23,187	4,565	27,752	-
Accrued interest	12,809	-	12,809	-
Current portion of notes payable	204,589	-	204,589	-
Total current liabilities	<u>319,493</u>	<u>42,852</u>	<u>362,345</u>	<u>73,210</u>
Noncurrent liabilities				
Notes payable (net of current portion)	1,999,877	-	1,999,877	-
Total noncurrent liabilities	<u>1,999,877</u>	<u>-</u>	<u>1,999,877</u>	<u>-</u>
Total liabilities	<u>2,319,370</u>	<u>42,852</u>	<u>2,362,222</u>	<u>73,210</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,456,167	-	7,456,167	-
Unrestricted	2,342,944	260,472	2,603,416	189,267
Total net assets	<u>\$ 9,799,111</u>	<u>\$ 260,472</u>	<u>\$ 10,059,583</u>	<u>\$ 189,267</u>

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

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS (DEFICIT) -
PROPRIETARY FUND TYPES
April 30, 2008

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities -	Governmental Activities - Internal Service Fund
OPERATING REVENUE				
Sewer use and hook-up fees	\$ 1,660,189	\$ -	\$ 1,660,189	\$ -
Solid waste service fees	-	465,988	465,988	-
Employer contributions	-	-	-	1,204,076
Employee contributions	-	-	-	256,634
Other revenue	28,169	-	28,169	-
Total operating revenue	<u>1,688,358</u>	<u>465,988</u>	<u>2,154,346</u>	<u>1,460,710</u>
OPERATING EXPENSES				
Administration	-	-	-	204,417
Life insurance premiums	-	-	-	10,901
Waste water treatment plant	589,052	-	589,052	-
Solid waste disposal	-	550,388	550,388	-
Maintenance	11,636	-	11,636	-
Billing and collection	164,431	-	164,431	-
Non-departmental	322,769	-	322,769	-
Benefit payments	-	-	-	833,334
Depreciation	367,257	-	367,257	-
Total operating expenses	<u>1,455,145</u>	<u>550,388</u>	<u>2,005,533</u>	<u>1,048,652</u>
Operating income (loss)	<u>233,213</u>	<u>(84,400)</u>	<u>148,813</u>	<u>412,058</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	83,491	83,491	-
Interest income	85,791	10,577	96,368	3,914
Net change in fair value of investments	21,909	3,053	24,962	-
Interest expense	(64,499)	-	(64,499)	-
Total nonoperating revenues (expenses)	<u>43,201</u>	<u>97,121</u>	<u>140,322</u>	<u>3,914</u>
Net income before other financing sources (uses)	<u>276,414</u>	<u>12,721</u>	<u>289,135</u>	<u>415,972</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	-	1,123	1,123	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>1,123</u>	<u>(23,877)</u>	<u>-</u>
Net income	251,414	13,844	265,258	415,972
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>9,547,697</u>	<u>246,628</u>	<u>9,794,325</u>	<u>(226,705)</u>
NET ASSETS, END OF YEAR	<u>\$ 9,799,111</u>	<u>\$ 260,472</u>	<u>\$ 10,059,583</u>	<u>\$ 189,267</u>

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

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
April 30, 2008

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 1,460,710
Receipts from customers	1,678,668	451,084	2,129,752	-
Payments to employees	(413,664)	(43,127)	(456,791)	-
Payments to suppliers	(420,036)	(553,834)	(973,870)	-
Payments for premiums, claims, and related services	(240,219)	-	(240,219)	(1,075,139)
Payments from (to) other funds	696,759	-	696,759	(152,281)
Net cash provided by (used in) operating activities	<u>1,301,508</u>	<u>(145,877)</u>	<u>1,155,631</u>	<u>233,290</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State replacement tax	-	81,625	81,625	-
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash provided by (used in) non-capital financing activities	<u>(25,000)</u>	<u>81,625</u>	<u>56,625</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on notes payable	(198,327)	-	(198,327)	-
Interest paid on notes payable	(65,871)	-	(65,871)	-
Capital assets acquired	(276,225)	-	(276,225)	-
Proceeds from the sale of capital assets	-	1,123	1,123	-
Net cash provided by (used in) capital financing activities	<u>(540,423)</u>	<u>1,123</u>	<u>(539,300)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(890,162)	-	(890,162)	-
Proceeds from the sale of investments	65,229	64,967	130,196	-
Interest received	70,993	10,599	81,592	3,914
Net cash provided by (used in) investing activities	<u>(753,940)</u>	<u>75,566</u>	<u>(678,374)</u>	<u>3,914</u>
NET CHANGE IN CASH	(17,855)	12,437	(5,418)	237,204
CASH, BEGINNING OF YEAR	<u>44,719</u>	<u>46,563</u>	<u>91,282</u>	<u>25,273</u>
CASH, END OF YEAR	<u>\$ 26,864</u>	<u>\$ 59,000</u>	<u>\$ 85,864</u>	<u>\$ 262,477</u>
RECONCILIATION OF OPERATING INCOME TO NET				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 233,213	\$ (84,400)	\$ 148,813	\$ 412,058
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	367,257	-	367,257	-
Effects of changes in operating assets and liabilities				
Accounts receivable	(9,690)	(14,904)	(24,594)	-
Due from other funds	696,759	-	696,759	-
Accounts payable	14,676	(46,763)	(32,087)	-
Claims payable	-	-	-	(26,487)
Accrued payroll	9,245,322	(112)	9,245,210	-
Compensated absences	1,002	302	1,304	-
Due to other funds	-	-	-	(152,281)
	<u>\$ 10,548,539</u>	<u>\$ (145,877)</u>	<u>\$ 10,402,662</u>	<u>\$ 233,290</u>

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

CITY OF STERLING, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
April 30, 2008

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ASSETS		
Cash	\$ 44,002	\$ 2,553
Intergovernmental receivable	5,759	-
Accrued interest receivable	58,686	-
Investments, at fair value	21,773,461	-
TOTAL ASSETS	21,881,908	2,553
 LIABILITIES	 -	 -
 NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS	 \$ 21,881,908	 \$ 2,553

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

CITY OF STERLING, ILLINOIS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
April 30, 2008

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ADDITIONS		
Contributions		
Employer	\$ 509,960	\$ -
Plan members	265,291	-
Total contributions	775,251	-
Investment income		
Interest earned	948,308	37
Net change in fair value	(594,026)	-
Total investment income	354,282	37
Other revenue	3,855	-
Total other revenue	3,855	-
Total additions	1,133,388	37
DEDUCTIONS		
Administrative	88,686	-
Benefits	1,158,185	-
Total deductions	1,246,871	-
NET INCREASE (DECREASE)	(113,483)	37
NET ASSETS HELD IN TRUST, BEGINNING OF YEAR	21,995,391	2,516
NET ASSETS HELD IN TRUST, END OF YEAR	\$ 21,881,908	\$ 2,553

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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, 2008

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 can selectively add funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The following fund types are used by the City:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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

BUDGETS (CONTINUED)

The appropriation ordinance and budget was passed on April 16, 2007. 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, 2008

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, 2008

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, 2008 represents installments of the 2006 property taxes which were received during 2007. The 2007 property tax levy has been deferred at April 30, 2008, as it was budgeted for fiscal year 2009.

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, 2008

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, 2008

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 \$1,055,405 and the bank balances totaled \$1,156,728. Cash on hand was \$6,120.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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	\$ 2,171,425	\$ 1,229,011	\$ 942,414	\$ -	\$ -
Money Market	1,105,182	1,105,182	-	-	-
U.S. Treasuries	7,191,810	924,407	2,104,127	3,548,671	614,605
U.S. Agencies	8,059,181	2,395	24,925	114,118	7,917,743
Illinois Treasurer's Investment	2,268,026	2,268,026	-	-	-
Mutual Funds	3,099,566	3,099,566	-	-	-
Annuities	9,004,906	9,004,906	-	-	-
	<u>\$32,900,096</u>	<u>\$17,633,493</u>	<u>\$3,071,466</u>	<u>\$3,662,789</u>	<u>\$8,532,348</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, 2008, the City had \$2,268,026 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, 2008

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, 2008, 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. As of April 30, 2008, no single investment of the City was over 5.00% of the City's total investment.

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2008, was as follows:

	Balance at May 1, 2007, <u>As Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance at April 30, 2008
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 994,516	\$ -	\$ -	\$ 994,516
Construction in progress	<u>1,042,582</u>	<u>595,829</u>	<u>1,594,783</u>	<u>43,628</u>
 Total capital assets not being depreciated	 <u>2,037,098</u>	 <u>595,829</u>	 <u>1,594,783</u>	 <u>1,038,144</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 3. Capital Assets (Continued)

	Balance at May 1, 2007, <u>As Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>April 30, 2008</u>
Governmental activities (Continued):				
Capital assets being depreciated				
Buildings	1,378,134	68,163	-	1,446,297
Equipment	4,064,252	292,348	-	4,356,600
Land improvements	781,383	-	-	781,383
Infrastructure	<u>19,293,299</u>	<u>1,694,632</u>	-	<u>20,987,931</u>
 Total capital assets being depreciated	 <u>25,517,068</u>	 <u>2,055,143</u>	 -	 <u>27,572,211</u>
Less accumulated depreciation for				
Buildings	427,496	48,409	-	475,905
Equipment	2,132,168	278,856	-	2,411,024
Land improvements	194,985	15,536	-	210,521
Infrastructure	<u>6,242,007</u>	<u>735,028</u>	-	<u>6,977,035</u>
 Total accumulated depreciation	 <u>8,996,656</u>	 <u>1,077,829</u>	 -	 <u>10,074,485</u>
 Total capital assets being depreciated, net	 <u>16,520,412</u>	 <u>977,314</u>	 -	 <u>17,497,726</u>
 Governmental activities capital assets, net	 <u>\$18,557,510</u>	 <u>\$1,573,143</u>	 <u>\$1,594,783</u>	 <u>\$18,535,870</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in progress	<u>5,268</u>	<u>89,585</u>	<u>26,374</u>	<u>68,479</u>
 Total capital assets not being depreciated	 <u>153,866</u>	 <u>89,585</u>	 <u>26,374</u>	 <u>217,077</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2008</u>
Business-type activities (Continued):				
Capital assets being depreciated				
Buildings and equipment	6,735,300	213,014	-	6,948,314
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>16,975,641</u>	 <u>213,014</u>	 <u>-</u>	 <u>17,188,655</u>
Less accumulated depreciation:				
Buildings and equipment	3,043,358	164,251	-	3,207,609
Inceptors, mains, and pump stations	952,469	27,134	-	979,603
Storm sewers	1,382,851	101,845	-	1,484,696
Sewer separation work	<u>1,999,164</u>	<u>74,027</u>	<u>-</u>	<u>2,073,191</u>
 Total accumulated depreciation	 <u>7,377,842</u>	 <u>367,257</u>	 <u>-</u>	 <u>7,745,099</u>
 Total capital assets being depreciated	 <u>9,597,799</u>	 <u>(154,243)</u>	 <u>-</u>	 <u>9,443,556</u>
 Business-type activities capital assets, net	 <u>\$ 9,751,665</u>	 <u>\$ (64,658)</u>	 <u>\$ 26,374</u>	 <u>\$ 9,660,633</u>

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

Governmental activities:	
General government	\$ 51,324
Public safety	163,591
Public works and transportation	737,048
Community development	13,790
Culture and recreation	29,911
Other	<u>82,165</u>
 Total depreciation expense	 <u>\$1,077,829</u>

CITY OF STERLING, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS
 April 30, 2008

Note 3. Capital Assets (Continued)

Business-type activities:	
Sewer	\$367,257
Solid waste	<u> -</u>
Total depreciation expense	<u>\$367,257</u>

Note 4. Construction Commitments

As of April 30, 2008, the City had remaining obligations under construction contracts as follows:

	<u>Project amount authorized</u>	<u>Expended to date</u>	<u>Commitment</u>
Polo Road Reconstruction Project	<u>\$345,777</u>	<u>\$ -</u>	<u>\$345,777</u>

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 \$974,296 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, 2006	\$ 138,214
Claims incurred	1,128,554
Claims paid	<u>(1,167,071)</u>
Claims payable, April 30, 2007	99,697
Claims incurred	833,334
Claims paid	<u>(859,821)</u>
Claims payable, April 30, 2008	<u>\$ 73,210</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 6. Long-Term Debt

Transactions for the year ended April 30, 2008 are summarized as follows:

	<u>Balance at</u> <u>May 1, 2007</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>April 30, 2008</u>	<u>Due Within</u> <u>1 Year</u>
Governmental activities:					
Bonds payable	\$ 9,684,757	\$ -	\$710,925	\$8,973,832	\$587,060
Leases payable	274,940	148,958	139,659	284,239	138,890
Loans payable	92,693	-	60,216	32,477	32,477
Redevelopment agreements	353,000	-	25,000	328,000	25,000
Compensated absences	359,249	2,174	-	361,423	-
Net pension obligation	<u>60,460</u>	<u>-</u>	<u>60,460</u>	<u>-</u>	<u>-</u>
	<u>\$10,825,099</u>	<u>\$151,132</u>	<u>\$996,260</u>	<u>\$9,979,971</u>	<u>\$783,427</u>
Business-type activities:					
Notes payable	\$2,402,792	\$ -	\$198,326	\$2,204,466	\$204,589
Compensated absences	<u>26,448</u>	<u>1,304</u>	<u>-</u>	<u>27,752</u>	<u>-</u>
	<u>\$2,429,240</u>	<u>\$ 1,304</u>	<u>\$198,326</u>	<u>\$2,232,218</u>	<u>\$204,589</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>
2009	\$ 115,000	\$ 43,017
2010	120,000	39,338
2011	120,000	35,317
2012	130,000	31,298
2013	140,000	26,943
2014-2017	<u>605,000</u>	<u>57,277</u>
Total	<u>\$1,230,000</u>	<u>\$233,190</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
<u>April 30</u>		
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	<u>\$1,895,000</u>	<u>\$257,355</u>

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, 2008

Note 6. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

<u>Year Ended</u>		<u>Principal</u>	<u>Interest</u>
<u>April 30</u>			
2009		\$ 22,000	\$10,637
2010		22,000	9,410
2011		22,000	8,184
2012		25,500	6,932
2013		25,500	5,510
2014-2016		<u>76,500</u>	<u>7,998</u>
Total		<u>\$193,500</u>	<u>\$48,671</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:

<u>Year Ended</u>		<u>Principal</u>	<u>Interest</u>
<u>April 30</u>			
2009		\$ 20,060	\$ 18,020
2010		21,264	16,816
2011		22,539	15,541
2012		23,892	14,188
2013		25,325	12,755
2014-2018		151,327	39,073
2019		<u>35,925</u>	<u>2,155</u>
Total		<u>\$300,332</u>	<u>\$118,548</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, 2008

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:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
<u>April 30</u>		
2009	\$ 110,000	\$ 153,520
2010	120,000	149,340
2011	135,000	144,780
2012	155,000	139,650
2013	180,000	133,760
2014-2018	1,280,000	547,200
2019-2023	<u>2,060,000</u>	<u>248,900</u>
 Total	 <u>\$4,040,000</u>	 <u>\$1,517,150</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, 2008

Note 6. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

<u>Year Ended</u> <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ -
2010	170,000	49,620
2011	175,000	43,925
2012	180,000	37,800
2013	185,000	31,140
2014-2016	<u>605,000</u>	<u>49,120</u>
Total	<u>\$1,315,000</u>	<u>\$211,605</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, 2008, the balance is \$187,322.

The City entered into a capital lease agreement for \$148,958 for the purchase of a street sweeper, dated July 2, 2007. Interest was at 4.89%, with three payments of \$52,041 each due on July 2, 2007, 2008, and 2009. As of April 30, 2008, the balance is \$96,917.

Loans Payable

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, 2008, the balance is \$15,369.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 6. Long-Term Debt (Continued)

Governmental Activities (Continued)

Loans Payable (Continued)

Future minimum payments are as follows:

<u>Year Ended</u>			
<u>April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$15,369</u>	<u>\$ 760</u>	<u>\$16,129</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, 2008, the balance is \$1,302.

Future minimum payments are as follows:

<u>Year Ended</u>			
<u>April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$1,302</u>	<u>\$6</u>	<u>\$1,308</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, 2008, the balance is \$15,806.

Future minimum payments are as follows:

<u>Year Ended</u>			
<u>April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$15,806</u>	<u>\$608</u>	<u>\$16,414</u>

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. The loan was paid off during the year ended April 30, 2008.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 6. Long-Term Debt (Continued)

Governmental Activities (Continued)

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, 2008, 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, 2008, the balance is \$260,000.

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, 2008 are as follows:

Governmental activities	\$ <u>361,423</u>
Business-type activities	\$ <u>27,752</u>

Net Pension Obligations

At April 30, 2008, the City had the following net pension obligations:

Police pension	\$ -
Fire pension	_____
Total	\$ <u>-</u>

Business-Type Activities

Loans Payable

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, 2008, the balance is \$186,050.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 6. Long-Term Debt (Continued)

Business-Type Activities (Continued)

Loans Payable (Continued)

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, 2008, the balance is \$1,225,026.

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, 2008, the balance is \$774,844.

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, 2008, the balance is \$18,546.

Debt Service Requirement to Maturity

<u>Fiscal Year</u> <u>Ending April 30</u>	<u>1991 EPA Loan</u>		<u>1997 EPA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 44,060	\$ 6,287	\$ 107,299	\$ 34,634
2010	45,657	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	-	-	120,349	21,584
2014 - 2018	-	-	656,375	53,288
Total	<u>\$186,050</u>	<u>\$23,167</u>	<u>\$1,225,026</u>	<u>\$194,300</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 6. Long-Term Debt (Continued)

Debt Service Requirement to Maturity (Continued)

Fiscal Year Ending April 30	2006 EPA Loan		2006 Sewer Camera Loan	
	Principal	Interest	Principal	Interest
2009	\$ 34,684	\$ 19,156	\$18,546	\$875
2010	35,556	18,283	-	-
2011	36,451	17,389	-	-
2012	37,367	16,472	-	-
2013	38,307	15,532	-	-
2014 - 2018	206,486	62,709	-	-
2019 - 2023	233,799	35,398	-	-
2024 - 2026	<u>152,194</u>	<u>6,644</u>	-	-
Total	<u>\$774,844</u>	<u>\$191,583</u>	<u>\$18,546</u>	<u>\$875</u>

Note 7. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2007:

Assessed valuation - 2007		<u>\$164,753,107</u>
Statutory debt limitation (8.625% of assessed limitation)		<u>\$ 14,209,955</u>
Total debt:		
Alternate revenue source bonds	\$4,440,000	
Tax increment revenue bonds	4,040,000	
Special service area bonds	493,832	
EPA loans payable	2,185,920	
Leases payable	284,239	
Loans payable	<u>51,023</u>	11,495,014
Less:		
Alternate revenue source bonds	4,440,000	
Tax increment revenue bonds	4,040,000	
Special service area bonds	493,832	
EPA loans payable	<u>2,185,920</u>	<u>11,159,752</u>
Total amount of debt applicable to debt limit		<u>335,262</u>
Legal debt margin		<u>\$ 13,874,693</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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, 2008, \$13,595,000 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, 2008, \$9,550,000 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, 2008, \$4,405,000 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, 2008, \$175,000 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 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, 2008

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 2007 was 5.70% 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 amortization period at December 31, 2007 was 25 years.

For December 31, 2007, the City's annual pension cost of \$138,833 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 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 10.0% 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 2007 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, 2007	\$ 138,833	100%	\$ -
December 31, 2006	169,089	100	-
December 31, 2005*	4,252,508	100	-

* Includes component unit.

Assumptions

The actuarial assumptions used to determine the actuarial accrued liability for 2007 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.

CITY OF STERLING, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS
 April 30, 2008

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, 2008, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	20
Current employees:	
Vested	20
Nonvested	<u>9</u>
Total	<u>49</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 13.67% 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, 2008

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, 2008, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	20
Current employees:	
Vested	16
Nonvested	<u>7</u>
Total	<u>43</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 15.75% 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, 2008

Note 9. Employee Retirement Systems (Continued)

Funding Policy and Annual Pension Cost

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

	<u>Police Pension Plan</u>	<u>Firefighters' Pension Plan</u>
Annual required contribution	\$ 213,958	\$ 192,178
Interest on net pension obligation	(2,935)	1,343
Adjustment to annual required contribution	<u>3,017</u>	<u>(1,380)</u>
Annual pension cost	214,040	192,141
Contributions made	<u>(294,230)</u>	<u>(215,730)</u>
Decrease in net pension obligation (asset)	(80,190)	(23,589)
Net pension obligation (asset), beginning of year, as restated	<u>(36,683)</u>	<u>16,785</u>
Net pension obligation (asset), end of year	<u>\$(116,873)</u>	<u>\$ (6,804)</u>

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

Actuarial valuation date	May 1, 2007
Actuarial cost method	Entry Age Normal Cost
Actuarial value of assets	3-year Smoothed Market
Amortization method	Level Dollar Closed
Remaining amortization period	30 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, 2008

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 (Asset)</u>
<u>Police Pension Fund</u>			
04/30/08	\$214,040	137.46%	\$(116,873)
04/30/07	203,222	164.20	(36,684)
04/30/06	305,262	90.18	97,783
<u>Firefighters' Pension Fund</u>			
04/30/08	\$192,141	112.28%	\$ (6,804)
04/30/07	164,616	161.80	16,785
04/30/06	252,215	75.25	118,524

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
Nonmajor Governmental	-	<u>97,801</u>
	<u>25,000</u>	<u>113,801</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	-
Sewer Fund:		
General Fund	-	<u>25,000</u>
Nonmajor Governmental:		
General Fund	50,000	-
Nonmajor Governmental	<u>47,801</u>	-
	<u>97,801</u>	-
Total operating transfers	<u>\$138,801</u>	<u>\$138,801</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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	\$ 489,192	\$ -
Motor Fuel Tax Fund	80,000	-
Rock River Tax Increment Allocation Fund	267,178	-
Nonmajor Governmental	<u>11,314</u>	<u>-</u>
	<u>847,684</u>	<u>-</u>
Rock River Tax Increment Allocation Fund:		
General Fund	-	267,178
Sewer Fund	-	403,241
Nonmajor Governmental	<u>-</u>	<u>705,451</u>
	<u>-</u>	<u>1,375,870</u>
CBD Tax Increment Allocation Fund:		
General Fund	-	489,192
Nonmajor Governmental	<u>-</u>	<u>402,500</u>
	<u>-</u>	<u>891,692</u>
Motor Fuel Tax Fund:		
General Fund	<u>-</u>	<u>80,000</u>
Sewer Fund:		
Rock River Tax Increment Allocation Fund	<u>403,241</u>	<u>-</u>
Nonmajor Governmental:		
General Fund	-	11,314
CBD Tax Increment Allocation Fund	402,500	-
Nonmajor Governmental	<u>705,451</u>	<u>-</u>
	<u>1,107,951</u>	<u>11,314</u>
Total due from/due to other funds	<u>\$2,358,876</u>	<u>\$2,358,876</u>

CITY OF STERLING, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS
 April 30, 2008

Note 10. Interfund Balances (Continued)

Due From/Due To Other Funds (Continued)

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.

Other interfund loans existing at April 30, 2008, 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, 2008:

	<u>Expenditures</u>	<u>Budget</u>
Solid Waste Fund	\$550,388	\$547,338
Police Pension Fund	651,334	637,990
Firemen's Pension Fund	595,537	594,537

The following funds had deficit fund balances or deficit retained earnings at April 30, 2008:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$778,469
CBD Tax Increment Allocation Fund	468,851

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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, 2008.

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.

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 the time they are turned over to collection, 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
April 30, 2008

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

Inventories

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

Investments and Investment Income

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

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

Investments are regularly evaluated for impairment. The Medical Center considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. The Medical Center considers the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and the intent and ability to hold the investment until maturity or market recovery is realized.

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 funds, and maintain reserve funds.

Compensated Absences

At the Medical Center, benefits given for vacation, holidays, personal days, funeral days, and sick days are combined into one program called Earned Time Off (ETO). Employees' compensated absences are accrued when earned. The Medical Center's employees earn ETO days at varying rates depending on years of service. Employees may accumulate ETO hours. All ETO hours accrued in excess of 480 hours (60 days) will be bought back from the employee in July of each year. The obligation and expenditure incurred during the year

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Compensated Absences (Continued)

are recorded as other current liabilities in the statement of net assets, and as a component of employee benefits in the statement of activities.

Noncurrent Liabilities

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

Net Assets

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

- Invested in capital assets net of related debt - 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 the board or 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; medical malpractice; 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	26%
Medicaid	32
Blue Cross	5
Other third-party payors	22
Patients	<u>15</u>
Total	<u>100%</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Classification of Revenues and Expenses

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

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as patient revenues.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income.

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

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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs and discounted charges. Following is a summary of the payment arrangements with major third party payors.

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Beginning in 2002, the Medical Center claimed Medicare payments based on an interpretation of certain “disproportionate share” rules. The Medical Center has applied for additional reimbursement under the “disproportionate share” rules for all years from 2002

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Net Patient Service Revenue (Continued)

Medicare (Continued)

forward. The Medical Center is also classified as a Medicare Dependent Hospital. The Medical Center has included approximately \$2,232,615 of the claimed excess in Net Patient Service Revenue for the year ended April 30, 2008. 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, 2006.

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.

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, 2007.

Other

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

Revenue from Medicare and Medicaid programs accounted for approximately 48% and 13%, respectively, of the Medical Center's gross patient service revenue for the year ended April 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of contractual allowances will change by a material amount in the near term.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Other (Continued)

In December 2004, the Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program) relating to the period May 9, 2004 to June 30, 2005. Under the Program, the Medical Center received additional Medicaid reimbursement from the State. On November 21, 2006, the Program was extended for a three year period from July 1, 2005 through June 30, 2008. Cash payments of \$4,564,992 were received and accrued payments of \$2,282,496 were included in net patient revenue for the year ended April 30, 2008.

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. These organizations have been consolidated in the presentation of CGH Medical Center as a component unit of the City.

Income Taxes

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

Rock River Health, Inc. and CGH Health Foundation, Inc., 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.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Capital Assets (Continued)

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, 2008, the net equity in unconsolidated investees is \$4,048,299.

Deposits and Investments

At year-end, the carrying amount of the Medical Center's unrestricted cash and deposits was \$12,982,541 and the bank balances totaled \$12,291,521. Cash on hand was \$2,225.

As of April 30, 2008, 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	\$ 663,222	\$ 663,222	\$ -	\$ -	\$ -
FNMA	2,401,984	305,740	1,964,795	-	131,449
U.S. Treasuries	3,046,087	2,885,731	160,356	-	-
FHLB	2,317,335	286,707	1,828,284	202,344	-
GNMA	750,532	-	-	-	750,532
FHLML	1,127,695	176,538	705,823	-	245,334
FFCB	499,298	-	499,298	-	-
	<u>\$10,806,153</u>	<u>\$4,317,938</u>	<u>\$5,158,556</u>	<u>\$202,344</u>	<u>\$1,127,315</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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 primarily less than a five-year average weighted life.

Credit Risk

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

Custodial Credit Risk - Deposits

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

Revenue Bonds Payable

At April 30, 2008, bonds payable consisted of the following issues:

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%. The interest is payable semiannually.

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%. The interest is payable semiannually.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Revenue Bonds Payable (Continued)

Transactions for the year ended April 30, 2008, are summarized as follows:

	<u>Balance</u> <u>May 1, 2007</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>April 30, 2008</u>
2003 Municipal Program Revenue Bonds	\$10,020,000	\$ -	\$ 470,000	\$ 9,550,000
2006 Municipal Program Revenue Bonds	14,230,000	-	635,000	13,595,000
Unamortized bond discount	<u>464,541</u>	<u>-</u>	<u>28,677</u>	<u>435,864</u>
Total revenue bonds payable	<u>\$23,785,459</u>	<u>\$ -</u>	<u>\$1,076,323</u>	<u>\$22,709,136</u>

Annual requirements of interest and principal payments to retire debt obligations are due on May 1st each year. Interest only payments are due on October 1st each year. The debt obligations due on May 1, 2008 were paid by April 30, 2008. Annual requirements to retire debt obligations are as follows:

<u>Year Ending</u> <u>April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 509,415	\$ 509,415
2010	1,140,000	998,145	2,138,145
2011	1,185,000	954,883	2,139,883
2012	1,230,000	907,942	2,137,942
2013	1,275,000	2,224,613	3,499,613
2014-2018	7,240,000	2,678,029	9,918,029
2019-2023	9,015,000	944,072	9,959,072
2024	<u>2,060,000</u>	<u>48,867</u>	<u>2,108,867</u>
Total	<u>\$23,145,000</u>	<u>\$9,265,966</u>	<u>\$32,410,966</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

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

Capital Assets

Capital asset activity for the year ended April 30, 2008 was as follows:

	<u>Balance at</u> <u>May 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>April 30, 2008</u>
Medical Center				
Land	\$ 2,395,138	\$ -	\$ -	\$ 2,395,138
Land improvements	1,921,631	15,130	2,046	1,934,715
Buildings	35,838,043	923,532	1,379,764	35,381,811
Rented buildings	19,800,048	126,727	7,466	19,919,309
Building service equipment	12,521,851	-	1,510,213	11,011,638
Moveable equipment	49,529,978	8,669,653	9,012,721	49,186,910
Construction in progress	<u>8,999,257</u>	<u>14,173,775</u>	<u>1,755,395</u>	<u>21,417,637</u>
 Total cost	 <u>131,005,946</u>	 <u>16,819,560</u>	 <u>13,667,605</u>	 <u>141,247,158</u>
 Less accumulated depreciation for:				
Land improvements	1,403,823	73,844	2,047	1,475,620
Buildings	21,231,595	1,684,153	970,071	21,945,677
Rented buildings	4,621,233	909,716	-	5,530,949
Building service equipment	11,051,899	296,302	1,436,346	9,911,855
Moveable equipment	<u>32,700,742</u>	<u>5,021,551</u>	<u>8,670,798</u>	<u>29,051,495</u>
 Total accumulated depreciation	 <u>71,009,292</u>	 <u>7,985,566</u>	 <u>11,079,262</u>	 <u>67,915,596</u>
 Total Medical Center capital assets, net	 <u>\$ 59,996,654</u>	 <u>\$15,923,251</u>	 <u>\$ 2,588,343</u>	 <u>\$ 73,331,562</u>

Self Insurance Plan

The Medical Center adopted a "self-insured" employee medical health plan effective November 1, 1984. A co-insurance policy is maintained covering plan participants for all costs in excess of \$250,000 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, 2008 to be approximately \$755,000, which is included in accrued liabilities on the Statement of Net Assets.

CITY OF STERLING, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS
 April 30, 2008

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

Malpractice Insurance

The Medical Center purchases professional and general 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 and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Medical Center contracted an independent actuary to estimate the ultimate costs of the settlement of such claims. Accrued malpractice losses in management's opinion provide an adequate reserve for loss contingencies.

The Medical Center purchases separate professional liability insurance to cover medical malpractice claims for specific employed physicians. The policies are claims made policies that have retroactive dates of May 1, 1979. There are known claims from services provided to patients. The claims appear to be covered claims, and are in various stages of the discovery process and investigation.

Note 13. Prior Period Adjustments

In the fund financial statements for the year ended April 30, 2006, a check was paid out of the Motor Fuel Tax Fund and should have been paid out of the Lynn Boulevard Fund. This error has been corrected and has the following effect of beginning net assets.

	<u>Motor Fuel Tax Fund</u>	<u>Lynn Boulevard Fund</u>
Beginning fund balance, as previously stated	\$ 462,105	\$ 39,921
Correction of error	<u>25,620</u>	<u>(25,620)</u>
Beginning fund balance, as restated	<u>\$ 487,725</u>	<u>\$ 14,301</u>

Note 14. Restatement of Infrastructure Assets

The accompanying financial statements reflect the retroactive reporting of infrastructure assets (acquired prior to May 1, 2003 and after June 30, 1980) in accordance with the general provisions of GASB Statement No. 34.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2008

Note 14. Restatement of Infrastructure Assets (Continued)

The restatement of infrastructure as of April 30, 2007 is as follows:

	<u>Balances at April 30, 2007</u>	<u>Restatement</u>	<u>Restated Balance at April 30, 2007</u>
Infrastructure	<u>\$5,205,178</u>	<u>\$7,846,114</u>	<u>\$13,051,292</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
 April 30, 2008

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}
<u>Police Pension Fund</u>						
4/30/08	\$ 11,537,623	\$ 12,432,905	\$ 895,282	92.80%	\$ 1,509,307	59.32%
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%
<u>Firemen Pension Fund</u>						
4/30/08	\$ 11,603,090	\$ 12,217,303	\$ 614,213	94.97%	\$ 1,219,916	50.35%
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%
<u>IMRF *</u>						
12/31/07	\$ 10,742,317	\$ 8,093,857	\$ (2,648,460)	132.72%	\$ 2,435,666	0.00%
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%

* Includes component unit in December 31, 2005.

On a market value basis, the actuarial value of assets as of December 31, 2007 is \$11,657,605. On a market basis, the funded ratio would be 144.03%.

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

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	<u>Appropriation</u>		<u>Actual</u>	<u>Over Under Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes:				
Corporate	\$ 375,045	\$ 367,789	\$ 367,789	\$ -
Fire protection	200,334	196,554	196,554	-
Police protection	200,334	196,554	196,554	-
Liability insurance	196,121	192,359	192,359	-
Workers' compensation	71,385	70,112	70,112	-
Road and bridge	110,000	106,662	106,662	-
Police pension	300,000	294,191	294,191	-
Fire pension	220,000	215,701	215,701	-
Total property taxes	<u>1,673,219</u>	<u>1,639,922</u>	<u>1,639,922</u>	<u>-</u>
Sales tax	<u>4,610,200</u>	<u>4,421,505</u>	<u>4,464,742</u>	<u>43,237</u>
Intergovernmental revenue:				
State income tax	1,352,968	1,437,978	1,469,398	31,420
State replacement tax	265,650	380,000	389,044	9,044
Township replacement tax	19,500	21,900	19,193	(2,707)
State grants	5,000	6,874	6,874	-
Blackhawk Area Task Force	69,579	69,441	69,191	(250)
Fire Department Wal-Mart Grant	5,000	1,000	2,000	1,000
Tobacco Grant	2,750	2,750	2,750	-
Bulletproof Vest Grant	1,375	220	220	-
Other grants	4,400	33,550	63,550	30,000
Fire protection revenue	<u>185,000</u>	<u>185,000</u>	<u>181,743</u>	<u>(3,257)</u>
Total intergovernmental revenue	<u>1,911,222</u>	<u>2,138,713</u>	<u>2,203,963</u>	<u>65,250</u>
Licenses and permits:				
Franchise licenses	619,000	619,000	601,321	(17,679)
Liquor licenses	70,000	59,300	63,395	4,095
Building permits	40,000	37,500	30,997	(6,503)
Other	<u>51,500</u>	<u>53,650</u>	<u>58,862</u>	<u>5,212</u>
Total licenses and permits	<u>780,500</u>	<u>769,450</u>	<u>754,575</u>	<u>(14,875)</u>
Fines and penalties	<u>272,300</u>	<u>268,800</u>	<u>273,293</u>	<u>4,493</u>
Charges for services	<u>57,790</u>	<u>59,550</u>	<u>58,457</u>	<u>(1,093)</u>

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

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	<u>Appropriation</u>		<u>Actual</u>	<u>Over Under Budget</u>
	<u>Original</u>	<u>Final</u>		
Investment income:				
Interest income	278,455	307,800	264,402	(43,398)
Unrealized loss	-	-	76,403	76,403
Total investment income	<u>278,455</u>	<u>307,800</u>	<u>340,805</u>	<u>33,005</u>
Donations	<u>307,900</u>	<u>336,985</u>	<u>313,120</u>	<u>(23,865)</u>
Other	<u>401,265</u>	<u>518,358</u>	<u>545,795</u>	<u>27,437</u>
 Total revenues	 <u>\$ 10,292,851</u>	 <u>\$ 10,461,083</u>	 <u>10,594,672</u>	 <u>\$ 133,589</u>

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

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	<u>Appropriation</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>Under</u>
				<u>Budget</u>
EXPENDITURES				
General government:				
Office of the Mayor and City Council	\$ 46,370	\$ 45,517	\$ 43,795	\$ 1,722
Office of City Clerk	104,725	101,415	98,666	2,749
Policy and Administration	313,738	302,648	295,721	6,927
Total general government	<u>464,833</u>	<u>449,580</u>	<u>438,182</u>	<u>11,398</u>
Public safety:				
Police Department				
Police Services Division	1,396,340	1,380,425	1,344,534	35,891
Administrative Services Division	296,590	294,253	292,491	1,762
Investigative Division	288,460	280,231	277,399	2,832
Support Services Division	542,353	533,152	511,331	21,821
Blackhawk Area Task Force Grant	69,579	69,441	69,761	(320)
Fire Department				
Fire Services Division	1,244,230	1,244,765	1,225,690	19,075
Administrative Services Division	152,370	151,975	150,874	1,101
Fire Prevention and Training Division	41,755	40,895	40,065	830
Total public safety	<u>4,031,677</u>	<u>3,995,137</u>	<u>3,912,145</u>	<u>82,992</u>
Public works and transportation:				
Administrative Division	159,948	170,794	161,393	9,401
Street Division	1,629,390	1,669,640	1,638,104	31,536
Traffic Division	65,732	50,942	52,570	(1,628)
Stormwater Division	-	49,100	-	49,100
City Shop	44,460	45,523	44,099	1,424
City Parks	15,335	18,797	51,311	(32,514)
Total public works and transportation	<u>1,914,865</u>	<u>2,004,796</u>	<u>1,947,477</u>	<u>57,319</u>
Community development:				
Office of Community Development	<u>247,472</u>	<u>237,143</u>	<u>244,265</u>	<u>(7,122)</u>
Other				
Contribution to police pension plan	300,000	294,191	294,191	-
Contribution to fire pension plan	220,000	215,701	215,701	-
Sterling Planning Commission	59,125	39,441	44,699	(5,258)
Police and Fire Commission	18,240	19,008	23,200	(4,192)
Non-departmental	1,819,795	1,713,411	1,713,624	(213)
Total other	<u>2,417,160</u>	<u>2,281,752</u>	<u>2,291,415</u>	<u>(9,663)</u>

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

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	Appropriation		Actual	Over Under Budget
	Original	Final		
Debt service:				
Principal	120,978	185,937	169,947	15,990
Interest	12,912	13,244	13,435	(191)
Total debt service	133,890	199,181	183,382	15,799
Capital outlay	920,495	889,959	945,789	(55,830)
Total expenditures	\$ 10,130,392	\$ 10,057,548	9,962,655	\$ 94,893
Excess of revenues over expenditures			632,017	
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	\$ -	\$ -	\$ 148,958	\$ 148,958
Sale of property	3,500	3,500	2,790	(710)
Operating transfers in	25,000	25,000	25,000	-
Operating transfers out	(79,615)	(113,801)	(113,801)	-
	\$ (51,115)	\$ (85,301)	62,947	\$ 148,248
Excess of revenues and other financing sources over expenditures and other financing uses			694,964	
FUND BALANCE, BEGINNING OF YEAR			7,324,215	
FUND BALANCE, END OF YEAR			\$ 8,019,179	

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

CITY OF STERLING, ILLINOIS
ROCK RIVER TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
April 30, 2008

	Budget		Actual	Over Under Budget
	Original	Final		
REVENUES				
Taxes				
Property	\$ 342,000	\$ 351,390	\$ 351,390	\$ -
Intergovernmental				
Federal grants	201,500	145,000	105,925	(39,075)
State grants	250,000	-	-	-
Interest	12,000	25,000	22,782	(2,218)
Other	-	57,874	57,874	-
	\$ 805,500	\$ 579,264	537,971	\$ (41,293)
Total revenues				
EXPENDITURES				
Community development				
Other professional service	\$ 206,000	\$ 151,896	112,821	\$ 39,075
Legal service	30,000	38,033	37,948	85
Environmental/USTs	20,000	304	304	-
Miscellaneous	60,400	67,800	68,157	(357)
Debt service				
Principal	105,000	105,000	105,000	-
Interest	157,510	222,100	201,972	20,128
	\$ 578,910	\$ 585,133	526,202	\$ 58,931
Total expenditures				
Excess of revenues over expenditures			11,769	
OTHER FINANCING SOURCES (USES)				
Bond/loan proceeds	\$ 425,000	\$ -	-	\$ -
	\$ 425,000	\$ -	-	\$ -
Excess of revenues and other financing sources over expenditures and other financing uses			11,769	
FUND DEFICIT, BEGINNING OF YEAR			(790,238)	
FUND DEFICIT, END OF YEAR			\$ (778,469)	

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

CITY OF STERLING, ILLINOIS
CBD TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	<u>Budget</u>		<u>Actual</u>	<u>Over Under Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property	\$ 281,780	\$ 275,144	\$ 275,144	\$ -
Sales	137,680	138,934	138,313	(621)
Interest	20,250	22,500	22,115	(385)
Net change in fair value of investments	-	-	9,285	9,285
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 439,710</u>	<u>\$ 436,578</u>	<u>444,857</u>	<u>\$ 8,279</u>
EXPENDITURES				
Community development				
Miscellaneous	\$ 1,685	\$ 2,559	2,559	\$ -
Debt service				
Principal	315,000	315,000	315,000	-
Interest	93,955	93,955	93,955	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 410,640</u>	<u>\$ 411,514</u>	<u>411,514</u>	<u>\$ -</u>
Excess of revenues over expenditures			<u>33,343</u>	
OTHER FINANCING SOURCES				
Operating transfers in	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			49,343	
FUND DEFICIT, BEGINNING OF YEAR			<u>(518,194)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (468,851)</u>	

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

CITY OF STERLING, ILLINOIS
MOTOR FUEL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
April 30, 2008

	Budget		Actual	Over Under Budget
	Original	Final		
REVENUES				
Intergovernmental				
Motor fuel tax	\$ 457,000	\$ 451,000	\$ 440,179	\$ (10,821)
Interest	15,000	23,400	22,141	(1,259)
Other	49,183	40,000	-	(40,000)
	<u>\$ 521,183</u>	<u>\$ 514,400</u>	<u>462,320</u>	<u>\$ (52,080)</u>
EXPENDITURES				
Public works and transportation				
General maintenance	\$ 160,000	\$ 231,279	237,612	\$ (6,333)
Street/traffic lights	80,000	80,000	80,000	-
Bumps and blowout repairs	20,000	-	-	-
LED sign conversion	64,451	54,531	-	54,531
Other	500	720	4,057	(3,337)
Debt service				
Principal	110,000	110,000	110,000	-
Interest	46,373	46,373	46,373	-
Capital outlay	35,000	83,350	71,799	11,551
	<u>\$ 516,324</u>	<u>\$ 606,253</u>	<u>549,841</u>	<u>\$ 56,412</u>
Deficiency of revenues over expenditures			(87,521)	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(87,521)	
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED			<u>487,725</u>	
FUND BALANCE, END OF YEAR			<u>\$ 400,204</u>	

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

SUPPLEMENTAL INFORMATION

CITY OF STERLING, ILLINOIS
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
April 30, 2008

Note 1. Basis of Accounting

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

Note 2. Excess of Disbursements Over Appropriations

No major funds had an excess of disbursements over appropriations.

CITY OF STERLING, ILLINOIS
NON-MAJOR FUNDS
COMBINING BALANCE SHEET
April 30, 2008

	Special Revenue						
	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund
ASSETS							
Cash	\$ 301,424	\$ 77,005	\$ 1,740	\$ 45,851	\$ 13,103	\$ 72,678	\$ 5,792
Investments	475,240	-	539,575	-	569,269	-	36,306
Receivables (net, where applicable of allowances for uncollectibles)							
Taxes	414,492	62,784	-	81,965	63,604	206,551	12,458
Intergovernmental	21,938	2,485	-	3,779	-	1,044	882
Accounts	-	-	-	1,120	-	-	-
Notes	-	-	43,870	-	-	-	-
Interest	3,501	-	9,285	-	2,727	-	133
Due from other funds	-	-	-	-	103,670	-	-
TOTAL ASSETS	\$ 1,216,595	\$ 142,274	\$ 594,470	\$ 132,715	\$ 752,373	\$ 280,273	\$ 55,571
LIABILITIES							
Accounts payable	\$ 8,212	\$ 1,183	\$ 3,149	\$ 2,919	\$ 3,693	\$ -	\$ 126
Accrued payroll	3,115	5,488	-	588	-	-	-
Deposits	-	-	8,722	-	-	-	-
Due to other funds	-	-	11,314	-	-	-	-
Deferred revenues	414,492	62,784	-	81,965	63,604	206,551	12,458
Total liabilities	<u>425,819</u>	<u>69,455</u>	<u>23,185</u>	<u>85,472</u>	<u>67,297</u>	<u>206,551</u>	<u>12,584</u>
FUND BALANCE							
Reserved	-	-	-	-	-	-	-
Unreserved	790,776	72,819	571,285	47,243	685,076	73,722	42,987
Total fund balance	<u>790,776</u>	<u>72,819</u>	<u>571,285</u>	<u>47,243</u>	<u>685,076</u>	<u>73,722</u>	<u>42,987</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,216,595	\$ 142,274	\$ 594,470	\$ 132,715	\$ 752,373	\$ 280,273	\$ 55,571

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

CITY OF STERLING, ILLINOIS
NON-MAJOR FUNDS
COMBINING BALANCE SHEET
April 30, 2008

Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Debt Service	Capital Project				Total
		Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	
\$ 14,356	\$ 37,238	\$ 76,597	\$ 1,527	\$ 1,856	\$ -	\$ -	\$ 649,167
-	-	-	-	-	-	-	1,620,390
-	-	80,683	-	-	-	-	922,537
-	-	-	36,705	-	-	-	66,833
-	-	-	-	1,150	-	-	2,270
-	-	-	-	-	-	-	43,870
-	-	-	-	-	-	-	15,646
-	-	-	-	-	601,781	402,500	1,107,951
<u>\$ 14,356</u>	<u>\$ 37,238</u>	<u>\$ 157,280</u>	<u>\$ 38,232</u>	<u>\$ 3,006</u>	<u>\$ 601,781</u>	<u>\$ 402,500</u>	<u>\$ 4,428,664</u>
\$ -	\$ 5,160	\$ -	\$ -	\$ 966	\$ -	\$ -	\$ 25,408
-	-	-	-	-	-	-	9,191
-	-	-	-	-	-	-	8,722
-	-	-	-	-	-	-	11,314
-	-	80,683	-	-	-	-	922,537
-	5,160	80,683	-	966	-	-	977,172
-	-	-	-	-	-	402,500	402,500
14,356	32,078	76,597	38,232	2,040	601,781	-	3,048,992
14,356	32,078	76,597	38,232	2,040	601,781	402,500	3,451,492
<u>\$ 14,356</u>	<u>\$ 37,238</u>	<u>\$ 157,280</u>	<u>\$ 38,232</u>	<u>\$ 3,006</u>	<u>\$ 601,781</u>	<u>\$ 402,500</u>	<u>\$ 4,428,664</u>

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

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
April 30, 2008

	Special Revenue						
	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund
REVENUES							
Taxes	\$ 359,549	\$ 56,329	\$ -	\$ 74,905	\$ 88,388	\$ 185,019	\$ 11,237
Intergovernmental	164,857	13,374	-	20,339	-	5,619	4,748
Charges for services	19,923	2,500	93,256	30,244	-	-	-
Interest	34,136	1,139	22,518	727	26,850	1,666	1,673
Net change in fair value of investments	4,554	-	-	-	12,475	-	426
Donations	45,931	29,204	12,950	-	-	-	-
Other	10,991	28	-	-	38,700	42,000	-
Total revenues	<u>639,941</u>	<u>102,574</u>	<u>128,724</u>	<u>126,215</u>	<u>166,413</u>	<u>234,304</u>	<u>18,084</u>
EXPENDITURES							
Current							
General government	-	-	-	126,687	109,261	219,503	-
Public safety	-	-	-	-	-	-	13,006
Public works and transportation	-	-	-	-	-	-	-
Community development	-	-	227,155	-	-	-	-
Culture and recreation	538,702	79,858	-	-	-	-	-
Debt service							
Principal	-	-	-	29,928	-	-	-
Interest	-	-	-	2,712	-	-	-
Capital outlay	18,228	-	7,064	-	-	-	-
Total expenditures	<u>556,930</u>	<u>79,858</u>	<u>234,219</u>	<u>159,327</u>	<u>109,261</u>	<u>219,503</u>	<u>13,006</u>
Excess (deficiency) of revenues over expenditures	<u>83,011</u>	<u>22,716</u>	<u>(105,495)</u>	<u>(33,112)</u>	<u>57,152</u>	<u>14,801</u>	<u>5,078</u>
OTHER FINANCING SOURCES							
Sale of property	1,767	-	-	-	-	-	-
Operating transfers in	-	-	-	50,000	-	-	-
Total other financing sources	<u>1,767</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>84,778</u>	<u>22,716</u>	<u>(105,495)</u>	<u>16,888</u>	<u>57,152</u>	<u>14,801</u>	<u>5,078</u>
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	<u>705,998</u>	<u>50,103</u>	<u>676,780</u>	<u>30,355</u>	<u>627,924</u>	<u>58,921</u>	<u>37,909</u>
FUND BALANCE, END OF YEAR	<u>\$ 790,776</u>	<u>\$ 72,819</u>	<u>\$ 571,285</u>	<u>\$ 47,243</u>	<u>\$ 685,076</u>	<u>\$ 73,722</u>	<u>\$ 42,987</u>

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

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
April 30, 2008

		Debt Service		Capital Project				
Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	Total	
\$ -	\$ -	\$ 81,089	\$ 205,705	\$ -	\$ -	\$ -	\$ 1,062,221	
-	-	-	-	-	-	-	208,937	
-	-	-	-	-	-	-	145,923	
6	447	1,146	493	30	3,106	-	93,937	
-	-	-	-	-	-	-	17,455	
-	-	-	-	-	-	-	88,085	
-	18,469	2,025	-	1,150	598,675	-	712,038	
6	18,916	84,260	206,198	1,180	601,781	-	2,328,596	
-	-	-	-	-	-	-	455,451	
-	14,495	-	-	-	-	-	27,501	
-	-	-	499	3,262	-	-	3,761	
-	-	-	-	-	-	-	227,155	
-	-	-	-	-	-	-	618,560	
-	-	40,925	165,000	-	-	-	235,853	
-	-	30,848	53,407	-	-	-	86,967	
-	2,147	-	11,162	-	-	-	38,601	
-	16,642	71,773	230,068	3,262	-	-	1,693,849	
6	2,274	12,487	(23,870)	(2,082)	601,781	-	634,747	
-	-	-	-	-	-	-	1,767	
-	-	-	47,801	-	-	-	97,801	
-	-	-	47,801	-	-	-	99,568	
6	2,274	12,487	23,931	(2,082)	601,781	-	734,315	
14,350	29,804	64,110	14,301	4,122	-	402,500	2,717,177	
\$ 14,356	\$ 32,078	\$ 76,597	\$ 38,232	\$ 2,040	\$ 601,781	\$ 402,500	\$ 3,451,492	

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

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF PLAN NET ASSETS -
PENSION TRUST FUNDS
April 30, 2008

	Pension Trust Funds		
	Policemen's	Firemen's	Totals
	Pension	Pension	
	Fund	Fund	Totals
ASSETS			
Cash	\$ 14,420	\$ 29,582	\$ 44,002
Accounts receivable	-	5,759	5,759
Accrued interest receivable	34,738	23,948	58,686
Investments, at fair value	10,830,779	10,942,682	21,773,461
TOTAL ASSETS	10,879,937	11,001,971	21,881,908
LIABILITIES	-	-	-
NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 10,879,937	\$ 11,001,971	\$ 21,881,908

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

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS -
PENSION TRUST FUNDS
April 30, 2008

	Pension Trust Funds		
	Policemen's	Firemen's	Total
	Pension Fund	Pension Fund	
ADDITIONS			
Contributions			
Employer	\$ 294,230	\$ 215,730	\$ 509,960
Plan members	149,571	115,720	265,291
Total contributions	<u>443,801</u>	<u>331,450</u>	<u>775,251</u>
Investment income			
Interest earned	574,382	373,926	948,308
Net change in fair value	<u>(432,017)</u>	<u>(162,009)</u>	<u>(594,026)</u>
Total investment income	<u>142,365</u>	<u>211,917</u>	<u>354,282</u>
Other revenue	<u>3,029</u>	<u>826</u>	<u>3,855</u>
Total additions	<u>589,195</u>	<u>544,193</u>	<u>1,133,388</u>
DEDUCTIONS			
Administrative	70,134	18,552	88,686
Benefits	<u>581,200</u>	<u>576,985</u>	<u>1,158,185</u>
Total deductions	<u>651,334</u>	<u>595,537</u>	<u>1,246,871</u>
NET DECREASE	<u>(62,139)</u>	<u>(51,344)</u>	<u>(113,483)</u>
NET ASSETS HELD IN TRUST FOR PENSION			
BENEFITS, BEGINNING OF YEAR	<u>10,942,076</u>	<u>11,053,315</u>	<u>21,995,391</u>
NET ASSETS HELD IN TRUST FOR			
PENSION BENEFITS, END OF YEAR	<u>\$ 10,879,937</u>	<u>\$ 11,001,971</u>	<u>\$ 21,881,908</u>

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

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, 2008, and have issued our report thereon dated September 20, 2008. 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 20, 2008

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants

328 West Stephenson Street
P.O. Box 567
Freeport, Illinois 61032

ph 815.233.1512
fax 815.233.1487
www.lcvcpa.com

Dixon, Illinois
Mendota, Illinois
Rockford, Illinois
Sterling, Illinois