

**CITY OF STERLING, ILLINOIS**

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**ANNUAL FINANCIAL REPORT**

**April 30, 2009**

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CITY OF STERLING, ILLINOIS

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sterling, Illinois (City), as of and for the year ended April 30, 2009, 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, 2009 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 October 8, 2009, 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.

*Saidgen, Callahan, Van Driel & Co., Ltd.*

Rockford, Illinois  
October 8, 2009



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, 2009, and have issued our report thereon dated October 8, 2009. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described on the next page to be a significant deficiency.

### 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, Callihan, Van Dool: Co, P.C.*

Rockford, Illinois  
October 8, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF STERLING, ILLINOIS Management's Discussion and Analysis

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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, 2009. 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 \$31,109,506 (net assets). Of this amount, \$11,195,497 (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 \$1,569,550 from the prior year. The net assets of the City's business-type activities increased by \$186,686, or 1.9%, and the net assets of the City's governmental activities increased by \$1,382,864, or 7.1%.
- In the City's governmental activities, revenues decreased \$655,148, or 4.4%, and expenses increased \$722,857, or 6.0%.
- In the City's business-type activities, revenues decreased \$16,902, or .7%, and expenses increased \$61,670, or 2.9%.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8,267,774, or 79.0% 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

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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 nineteen 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, and CDB Tax Increment Allocation Fund, all of which are considered to be major funds. Data from the other sixteen 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

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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 \$31,109,506 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**

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The largest portion of the City's net assets (56.1%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire those assets that is 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)**

	<u>Governmental</u>		<u>Business -type</u>		<u>Total Primary</u>		<u>Total percentage</u>
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>		
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2008-FY2009</u>
Current and other assets	\$16.4	\$15.5	\$ 3.0	\$ 2.7	\$19.4	\$18.2	6.6%
Capital assets	<u>18.6</u>	<u>18.5</u>	<u>9.3</u>	<u>9.7</u>	<u>27.9</u>	<u>28.2</u>	(1.1)%
Total assets	<u>\$35.0</u>	<u>\$34.0</u>	<u>\$12.3</u>	<u>\$12.4</u>	<u>\$47.3</u>	<u>\$46.4</u>	1.9%
Long-term liabilities							
outstanding	\$ 8.7	\$ 9.6	\$2.0	\$2.2	\$10.7	\$11.8	(9.3)%
Other liabilities	<u>5.4</u>	<u>4.9</u>	<u>0.1</u>	<u>0.1</u>	<u>5.5</u>	<u>5.0</u>	10.0%
Total liabilities	<u>\$14.1</u>	<u>\$14.5</u>	<u>\$2.1</u>	<u>\$2.3</u>	<u>\$16.2</u>	<u>\$16.8</u>	(3.6)%
Net assets:							
Invested in capital							
assets, net of debt	\$10.1	\$ 9.2	\$ 7.3	\$ 7.5	\$17.4	\$16.7	4.2%
Restricted	2.5	2.4	-	-	2.5	2.4	4.2%
Unrestricted (deficit)	<u>8.3</u>	<u>7.9</u>	<u>2.9</u>	<u>2.6</u>	<u>11.2</u>	<u>10.5</u>	6.7%
Total net assets	<u>\$20.9</u>	<u>\$19.5</u>	<u>\$10.2</u>	<u>\$10.1</u>	<u>\$31.1</u>	<u>\$29.6</u>	5.1%

An additional portion of the City's net assets (7.9%) represent resources that are subject to external restrictions on how they may be used. There was an increase of \$189,810 in restricted net assets reported in connection with the City's governmental funds.

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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The remaining balance of *unrestricted net assets* (\$11,195,497, or 36.0% of total net assets) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$665,766 in unrestricted net assets reported in connection with the City's governmental funds. A portion of this increase (\$216,969) resulted from an extraordinary gain on the Public Works fire, where insurance proceeds exceeded the amount spent on repairs and replacement of the building and equipment by the end of the fiscal year. The City received \$359,465 in insurance proceeds to replace and/or repair damages to the building and equipment that were damaged in the fire.

At April 30, 2009, the City had only replaced \$57,990 in equipment. Repairs to the equipment and depreciation on replaced equipment totaled \$84,506. Therefore, the City had \$216,969 in proceeds that were not spent as of the end of the fiscal year. The City will continue to make repairs/replacements in fiscal year 2010 with the remaining funds.

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 \$1,569,550 during the current fiscal year. Approximately 14% of this increase represents the extraordinary gain related to the Public Works fire. The remainder of this growth is mainly due to small increases in multiple revenue sources.

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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

	<u>Governmental</u> <u>Activities</u>		<u>Business -type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>		<u>Total percentage</u> <u>Change</u>
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2008-FY2009</u>
Revenues:							
Program revenues:							
Charges for services	\$ 1.6	\$ 1.7	\$ 2.2	\$ 2.1	\$ 3.8	\$ 3.8	0.0%
Operating grants and contributions	0.3	0.4	-	-	0.3	0.4	(25.0)%
Capital grants and contributions	0.1	0.3	-	-	0.1	0.3	(66.7)%
General revenues:							
Property taxes	3.3	3.1	-	-	3.3	3.1	6.5%
Other taxes	7.1	7.3	0.1	0.1	7.2	7.4	(2.7)%
Other	<u>1.7</u>	<u>2.0</u>	<u>0.1</u>	<u>0.1</u>	<u>1.8</u>	<u>2.1</u>	(14.3)%
Total revenues	<u>14.1</u>	<u>14.8</u>	<u>2.4</u>	<u>2.3</u>	<u>16.5</u>	<u>17.1</u>	(3.5)%
Program expenses:							
General government	2.4	1.8	-	-	2.4	1.8	33.3%
Public safety	4.3	4.1	-	-	4.3	4.1	4.9%
Public works and Transportation	2.9	3.0	-	-	2.9	3.0	(3.3)%
Community development	0.8	0.7	-	-	0.8	0.7	14.3%
Culture and recreation	0.6	0.6	-	-	0.6	0.6	0.0%
Other	1.5	1.4	-	-	1.5	1.4	7.1%
Interest on long-term debt	0.3	0.4	-	-	0.3	0.4	(25.0)%
Sewer	-	-	1.6	1.5	1.6	1.5	6.7%
Solid waste	-	-	<u>0.6</u>	<u>0.5</u>	<u>0.6</u>	<u>0.5</u>	20.0%
Total expenses	<u>12.8</u>	<u>12.0</u>	<u>2.2</u>	<u>2.0</u>	<u>15.0</u>	<u>14.0</u>	7.1%
Increase in net assets	1.3	2.8	0.2	0.3	1.5	3.1	(51.6)%
Net assets, beginning of year, as restated	<u>19.5</u>	<u>16.7</u>	<u>10.1</u>	<u>9.8</u>	<u>29.6</u>	<u>26.5</u>	11.7%
Net assets, end of year	<u>\$20.8</u>	<u>\$19.5</u>	<u>\$10.3</u>	<u>\$10.1</u>	<u>\$31.1</u>	<u>\$29.6</u>	5.1%

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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Governmental activities increased the City's net assets by \$1,382,864, thereby accounting for 88% of the total growth in net assets. The increase in governmental net assets was approximately 50% under the prior year. Key elements of this decrease are as follows:

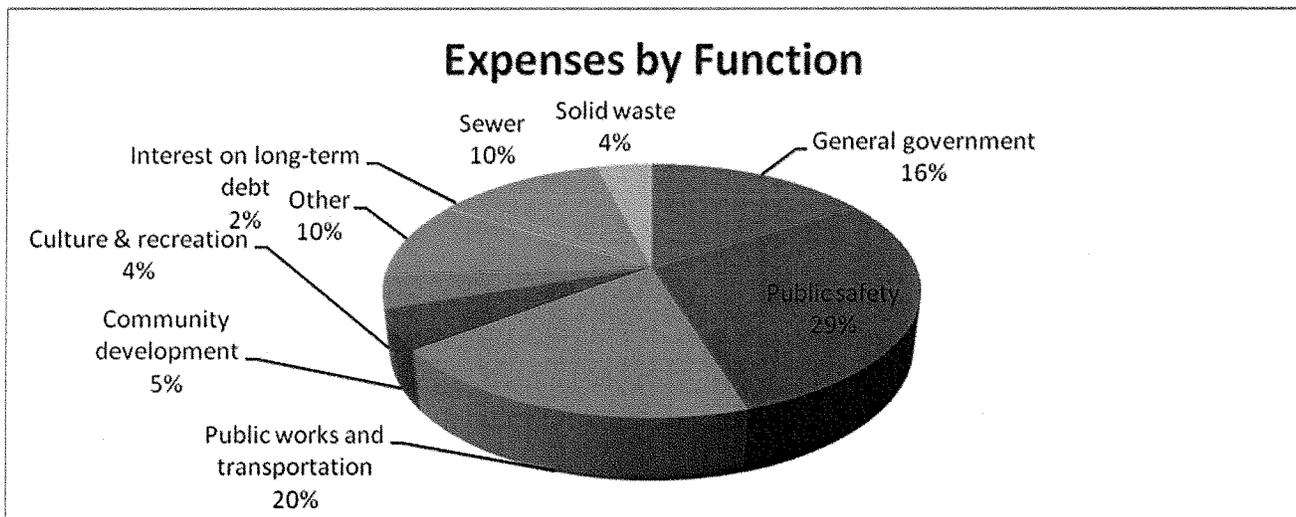
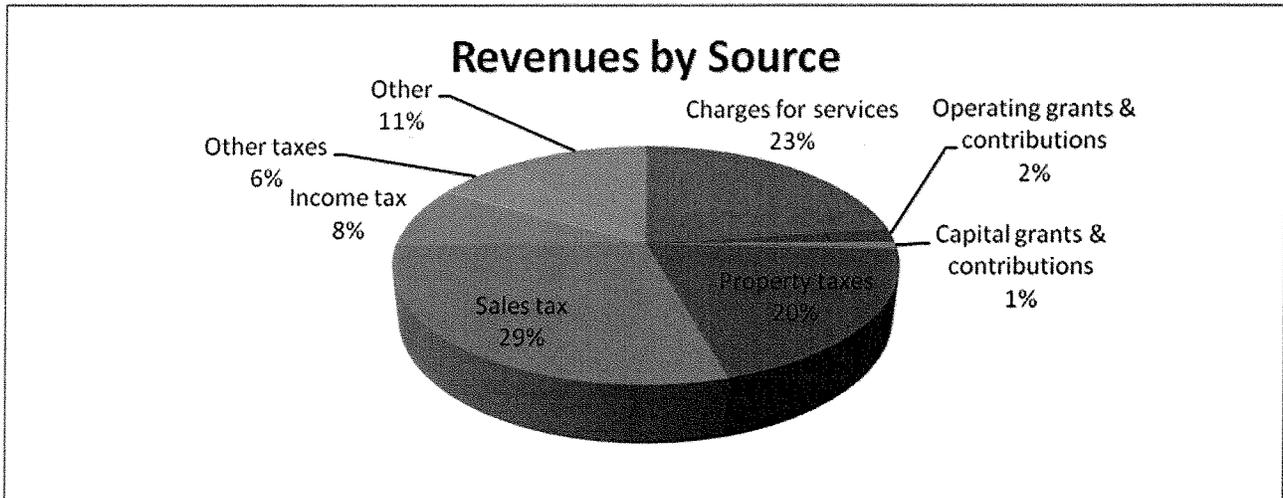
- Governmental revenues decrease by approximately 4%, which was mainly due to several items:
  - The receipt of the Northwestern Steel and Wire Company bankruptcy settlement of \$498,675 in fiscal year 2008 was offset by the extraordinary gain of \$216,969 from the Public Works fire in fiscal year 2009, accounting for 43% of the total decrease in governmental revenues compared to the prior year.
  - The following items were down in fiscal year 2009 due to poor economic conditions nationwide (and account for 37% of the total decrease in governmental revenues compared to the prior year):
    - Personal property replacements taxes – down 9%
    - State income taxes – down 7%
    - Motor fuel tax – down 7%
    - Charges for services – down 4%
- Governmental expenses increased by approximately 6%. A majority of this increase (55%) reflects the large increase in health insurance claims compared to the prior year. The remainder of this increase is related to one-time equipment purchases made in fiscal year 2009 and general inflation.

Business-type activities increased the City's net assets by \$186,686, accounting for approximately 12% of the total growth in net assets. Key elements of this increase are as follows:

- Business-type revenues decreased by approximately .7%. The sewer rate increase of 3.6% was offset by decreases in personal property replacement taxes (22% decrease) and investment income (21% decrease).
- Business-type expenses increased by approximately 3%, which, for the most part closely parallels inflation.

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

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**



The City receives approximately 72% of its total revenues from sales tax, charges for services, and property taxes. The remaining 28% of revenues are derived from income and other taxes, operating and capital grants and contributions, and other revenues.

During the current fiscal year, 49% 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 16% of total costs, while community development, culture and recreation, solid waste, and interest expenses made up the bottom 15% of all costs.

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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**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 \$11,185,926, an increase of \$527,467 in comparison with the prior year. Approximately 96% of this total amount (\$10,736,057) 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 \$8,267,774, while the total fund balance reached \$8,315,143. 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 79.0% of total General Fund expenditures, while total fund balance represents 79.4% of that same amount.

The fund balance of the City's General Fund increased by \$348,818 during the current fiscal year, which is 49.8% less than the prior year's fund balance increase of \$694,964. This large decrease between years was due to a minimal .6% increase in General Fund revenues that were offset by a 5.1% 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 \$2,722,056, and those for the Solid Waste Fund amounted to \$212,958. The total growth (reduction) in net assets for both funds was \$233,916 and \$(47,230), 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**

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**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor (\$64,349, or .6% decrease in appropriations) and can be briefly summarized as follows:

- \$60,946 in decreases in general government activities (mainly the result of not filling the assistant city manager position)
- \$61,797 in miscellaneous decreases in public safety
- \$93,664 in miscellaneous increases allocated to public works and transportation
- \$364 in miscellaneous decreases in community development activities
- \$24,410 in miscellaneous increases for other expenditures
- \$22,174 in increases to debt service (mainly the result of the mower, dump truck chassis, and end loader loans)
- \$81,490 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, 2009, amounts to \$27,900,846 (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 was 1.0% (a .3% increase for governmental activities and a .4% decrease for business-type activities). The main reason for the decrease was accounting for equipment that was lost in the Public Works fire and not yet replaced.

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

- The Phase I of the Polo Road Project was completed at a total cost of \$374,523.
- Streetscape Phase VII was completed at a total cost of \$198,126.
- A dump truck cab and chassis was purchased for the Public Works Department for \$101,616.
- A loader was purchased for the Public Works Department for \$109,000.

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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

	<u>Governmental Activities</u>		<u>Business –type Activities</u>		<u>Total Primary Government</u>		<u>Total percentage Change</u> <u>FY2008-FY2009</u>
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	
Land	\$ 1.0	\$ 1.0	\$ 0.1	\$ 0.1	\$ 1.1	\$ 1.1	0.0%
Construction in progress	-	-	0.1	0.1	0.1	0.1	0.0%
Buildings and equipment	5.9	5.8	7.0	6.9	12.9	12.7	1.6%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	<u>21.7</u>	<u>21.0</u>	<u>10.2</u>	<u>10.2</u>	<u>31.9</u>	<u>31.2</u>	2.2%
Subtotal	29.4	28.6	17.4	17.3	46.8	45.9	2.0%
Less: accumulated depreciation	<u>10.8</u>	<u>10.1</u>	<u>8.1</u>	<u>7.7</u>	<u>18.9</u>	<u>17.8</u>	6.2%
Total	<u>\$18.6</u>	<u>\$18.5</u>	<u>\$ 9.3</u>	<u>\$ 9.6</u>	<u>\$27.9</u>	<u>\$28.1</u>	(0.7)%

**Long-term debt.** At the end of the current fiscal year, the City had \$10,758,117 in bonds, notes, and leases outstanding, which is a decrease of \$1,064,897, or 9%, over the prior year. New debt issued by the City during the current fiscal year included loans to purchase a mower for \$21,165, a dump truck chassis for \$56,408, and an end loader for \$110,000.

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

	<u>Governmental Activities</u>		<u>Business –type Activities</u>		<u>Total Primary Government</u>		<u>Total percentage Change</u> <u>FY2008-FY2009</u>
	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2008</u>	
Bonds payable	\$8.2	\$9.0	\$ -	\$ -	\$ 8.2	\$ 9.0	(8.9)%
Leases payable	0.1	0.3	-	-	0.1	0.3	(66.7)%
Loans payable	0.1	-	2.0	2.2	2.1	2.2	(4.5)%
Redevelopment agreements	<u>0.3</u>	<u>0.3</u>	<u>-</u>	<u>-</u>	<u>0.3</u>	<u>0.3</u>	0.0%
Total	<u>\$8.7</u>	<u>\$9.6</u>	<u>\$2.0</u>	<u>\$2.2</u>	<u>\$10.7</u>	<u>\$11.8</u>	(9.3)%

**CITY OF STERLING, ILLINOIS**  
**Management's Discussion and Analysis**

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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 \$14,524,460, which is significantly in excess of the City’s outstanding general obligation debt of \$238,469.

**Economic Factors and Next Year’s Budgets and Rates**

The City’s Council and staff considered many factors while preparing the fiscal year 2010 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 2010 fiscal year are \$10,301,196, a decrease of 3.3% over the final fiscal year 2009 budget of \$10,649,312. Decreases in sales, income, and personal property replacement taxes are expected to cause this decrease. Because of the anticipated decline in revenues, the City has had to budget for significant cuts across all departments.

Budgeted expenditures in the General Fund are expected to decrease \$315,427, or approximately 3%, to \$10,295,268. The largest increments are decreased capital and infrastructure costs of \$547,118 (173% of increase), which are offset by normal inflationary increases in salaries, materials, and services.

If these estimates are realized, the City’s budgetary General Fund balance is expected to increase slightly (\$5,928) by the close of fiscal year 2010.

**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 3<sup>rd</sup> Avenue, Sterling, IL 61081.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF NET ASSETS**  
**April 30, 2009**

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	
<b>ASSETS</b>				
Cash	\$ 608,285	\$ 54,013	\$ 662,298	\$ 3,854,009
Restricted cash	-	34,531	34,531	-
Investments	9,858,753	1,960,500	11,819,253	-
Taxes receivable	3,634,896	-	3,634,896	-
Intergovernmental receivables	1,383,839	-	1,383,839	-
Accounts receivable (net of allowance for uncollectibles)	434,695	195,403	630,098	16,064,898
Notes receivable (net of allowance for uncollectibles)	236,245	-	236,245	-
Interest receivable	33,013	5,812	38,825	132,994
Other receivables	-	-	-	1,034,377
Estimated third-party payor settlements	-	-	-	105,960
Due from unconsolidated investees	-	-	-	275,579
Inventories	47,369	-	47,369	1,464,248
Internal balances	-	795,899	795,899	-
Prepaid expenses	-	-	-	1,213,937
Net pension asset	124,821	-	124,821	-
Other assets	55,333	-	55,333	-
Capital assets:				
Land and construction in progress	1,127,925	217,077	1,345,002	-
Infrastructure, net	13,888,518	-	13,888,518	-
Other capital assets, net	3,577,913	9,089,413	12,667,326	68,437,723
Assets limited as to use	-	-	-	30,016,487
Unamortized bond issue costs	-	-	-	202,319
Investment in real estate	-	-	-	2,119,894
Net equity in unconsolidated investees	-	-	-	4,172,011
Net equity in component units	-	-	-	2,701,901
Total assets	35,011,605	12,352,648	47,364,253	131,796,337
<b>LIABILITIES</b>				
Accounts payable	216,402	54,396	270,798	3,110,084
Claims payable	54,654	-	54,654	-
Accrued payroll	136,948	10,757	147,705	-
Accrued interest	98,749	11,389	110,138	-
Deposits	13,802	320	14,122	-
Internal balances	795,899	-	795,899	-
Deferred revenue	3,683,696	-	3,683,696	-
Estimated third-party payor settlements	-	-	-	4,621,934
Other current liabilities	-	-	-	9,552,141
Accrued compensated absences	385,336	34,282	419,618	-
Long-term liabilities:				
Due within one year	896,733	191,634	1,088,367	731,896
Due in more than one year	7,861,508	1,808,242	9,669,750	24,323,246
Total liabilities	14,143,727	2,111,020	16,254,747	42,339,301
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10,139,112	7,306,614	17,445,726	52,287,281
Restricted for:				
Special revenue	1,711,613	-	1,711,613	-
Debt service	89,803	-	89,803	2,711,420
Capital repairs and replacements	-	-	-	25,289,550
Health development	-	-	-	2,015,517
Capital projects	666,867	-	666,867	-
Unrestricted	8,260,483	2,935,014	11,195,497	7,153,268
Total net assets	\$ 20,867,878	\$ 10,241,628	\$ 31,109,506	\$ 89,457,036

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  
Year Ended April 30, 2009

FUNCTIONS/PROGRAMS	Program Revenues					Net (Expense) Revenue and Change in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	-	Primary Government			
						Governmental Activities	Business-Type Activities	Total	
<b>Primary government</b>									
<b>Governmental activities:</b>									
General government	\$ 2,381,434	\$ 1,230,979	\$ 12,244	\$ -	\$ (1,138,211)	\$ -	\$ (1,138,211)	\$ -	
Public safety	4,348,143	211,642	90,681	677	(4,045,143)	-	(4,045,143)	-	
Public works and transportation	2,922,772	-	-	108,718	(2,814,054)	-	(2,814,054)	-	
Community development	766,909	120,754	149,725	12,830	(483,600)	-	(483,600)	-	
Culture and recreation	629,291	21,528	85,951	23,000	(498,812)	-	(498,812)	-	
Other	1,460,009	-	-	-	(1,460,009)	-	(1,460,009)	-	
Interest on long-term debt	273,701	-	-	-	(273,701)	-	(273,701)	-	
<b>Total governmental activities</b>	<b>12,782,259</b>	<b>1,584,903</b>	<b>338,601</b>	<b>145,225</b>	<b>(10,713,530)</b>	<b>-</b>	<b>(10,713,530)</b>	<b>-</b>	
<b>Business-type activities:</b>									
Sewer	1,542,946	1,704,110	-	-	-	161,164	161,164	-	
Solid waste	588,756	463,874	-	-	-	(124,882)	(124,882)	-	
<b>Total business-type activities</b>	<b>2,131,702</b>	<b>2,167,984</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,282</b>	<b>36,282</b>	<b>-</b>	
<b>Total primary government</b>	<b>\$ 14,913,961</b>	<b>\$ 3,752,887</b>	<b>\$ 338,601</b>	<b>\$ 145,225</b>	<b>(10,713,530)</b>	<b>36,282</b>	<b>(10,677,248)</b>	<b>-</b>	
<b>Component unit</b>									
CGH Medical Center	\$ 110,246,516	\$ 108,177,515	\$ 325,045	\$ -				\$ (1,743,956)	
<b>General Revenues:</b>									
Property taxes, levied for general purposes					3,276,420		3,276,420		
Sales tax					4,821,225		4,821,225		
Personal property replacement tax					516,914	65,000	581,914		
Income tax and surcharge					1,373,470		1,373,470		
Fire protection revenue					213,059		213,059		
Motor fuel tax					411,444		411,444		
Investment income					544,898	95,759	640,657	287,164	
Decrease in net equity in unconsolidated investees					-	-	-	(420,220)	
Other					685,146	13,281	698,427		
Special item - gain (loss) on disposal of asset					11,849	1,364	13,213	4,932,150	
Extraordinary item - gain on fire loss					216,969		216,969	(1,104,962)	
Transfers - internal activity					25,000	(25,000)	-		
<b>Total general revenues and transfers</b>					<b>12,096,394</b>	<b>150,404</b>	<b>12,246,798</b>	<b>3,694,132</b>	
Change in net assets					1,382,864	186,686	1,569,550	1,950,176	
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>					19,485,014	10,054,942	29,539,956	87,506,860	
<b>NET ASSETS, END OF YEAR</b>					\$ 20,867,878	\$ 10,241,628	\$ 31,109,506	\$ 89,457,036	

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, 2009

	General Fund	Rock River Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 105,396	\$ -	\$ 3,407	\$ 472,594	\$ 581,397
Investments	5,894,659	717,927	380,875	2,563,785	9,557,246
Receivables					
Taxes	1,969,954	444,545	282,446	937,951	3,634,896
Intergovernmental	1,255,572	10,709	22,242	95,316	1,383,839
Accounts receivable	51,997	74,789	3,591	72,677	203,054
Notes	-	-	-	236,245	236,245
Interest	6,022	-	725	25,981	32,728
Inventories	47,369	-	-	-	47,369
Due from other funds	1,265,000	-	-	834,381	2,099,381
<b>TOTAL ASSETS</b>	<b>\$ 10,595,969</b>	<b>\$ 1,247,970</b>	<b>\$ 693,286</b>	<b>\$ 5,238,930</b>	<b>\$ 17,776,155</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 137,579	\$ 48,853	\$ -	\$ 29,970	\$ 216,402
Accrued payroll	122,493	-	-	14,455	136,948
Deposits	2,000	-	-	11,802	13,802
Due to other funds	-	1,490,932	852,500	195,949	2,539,381
Deferred revenue	2,018,754	444,545	282,446	937,951	3,683,696
Total liabilities	<u>2,280,826</u>	<u>1,984,330</u>	<u>1,134,946</u>	<u>1,190,127</u>	<u>6,590,229</u>
<b>FUND EQUITY</b>					
Fund balance					
Reserved	47,369	-	-	402,500	449,869
Unreserved					
General	8,267,774	-	-	-	8,267,774
Special revenue	-	(736,360)	(441,660)	2,889,633	1,711,613
Debt service	-	-	-	89,803	89,803
Capital project	-	-	-	666,867	666,867
Total fund equity	<u>8,315,143</u>	<u>(736,360)</u>	<u>(441,660)</u>	<u>4,048,803</u>	<u>11,185,926</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 10,595,969</b>	<b>\$ 1,247,970</b>	<b>\$ 693,286</b>	<b>\$ 5,238,930</b>	<b>\$ 17,776,155</b>

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**  
**Year Ended April 30, 2009**

Total governmental fund balances \$ 11,185,926

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 \$10,852,184 18,594,356

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

General obligations bonds payable	(3,835,000)
Tax increment bonds payable	(3,930,000)
Special service area bonds payable	(451,772)
Notes payable	(238,469)
Redevelopment agreements payable	(303,000)
Net pension asset	124,821
Compensated absences	(385,336)

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. (98,749)

Bond issue costs are reported as expenditures in the governmental funds. The cost is \$92,221 and accumulated amortization is \$36,888. 55,333

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	\$ 560,321	
Liabilities	<u>(410,553)</u>	<u>149,768</u>

**Total net assets - governmental activities \$ 20,867,878**

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**  
**Year Ended April 30, 2009**

	<b>General Fund</b>	<b>Rock River Tax Increment Allocation Fund</b>	<b>CBD Tax Increment Allocation Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 6,205,257	\$ 377,717	\$ 418,723	\$ 1,095,948	\$ 8,097,645
Intergovernmental	2,052,412	111,297	-	593,594	2,757,303
Licenses and permits	727,774	-	-	-	727,774
Fines and penalties	211,642	-	-	-	211,642
Charges for services	56,566	-	-	167,317	223,883
Investment income	370,272	8,042	20,582	136,256	535,152
Donations	172,456	-	-	68,954	241,410
Other	861,502	-	-	183,109	1,044,611
Total revenues	<u>10,657,881</u>	<u>497,056</u>	<u>439,305</u>	<u>2,245,178</u>	<u>13,839,420</u>
<b>EXPENDITURES</b>					
Current					
General government	416,015	-	-	431,539	847,554
Public safety	4,159,452	-	-	22,908	4,182,360
Public works and transportation	1,862,837	-	-	356,717	2,219,554
Community development	321,277	279,079	1,629	152,450	754,435
Culture and recreation	-	-	-	651,352	651,352
Other	2,270,904	-	-	-	2,270,904
Debt service					
Principal	234,644	110,000	345,000	358,236	1,047,880
Interest	13,229	65,868	81,485	121,213	281,795
Capital outlay	1,187,765	-	-	92,776	1,280,541
Total expenditures	<u>10,466,123</u>	<u>454,947</u>	<u>428,114</u>	<u>2,187,191</u>	<u>13,536,375</u>
Excess of revenues over expenditures	<u>191,758</u>	<u>42,109</u>	<u>11,191</u>	<u>57,987</u>	<u>303,045</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond/loan proceeds	187,573	-	-	-	187,573
Sale of property	10,487	-	-	1,362	11,849
Operating transfers in	25,000	-	16,000	50,000	91,000
Operating transfers out	(66,000)	-	-	-	(66,000)
Total other financing sources (uses)	<u>157,060</u>	<u>-</u>	<u>16,000</u>	<u>51,362</u>	<u>224,422</u>
Excess of revenues and other financing sources over expenditures and other financing uses	348,818	42,109	27,191	109,349	527,467
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>					
	<u>7,966,325</u>	<u>(778,469)</u>	<u>(468,851)</u>	<u>3,939,454</u>	<u>10,658,459</u>
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<u>\$ 8,315,143</u>	<u>\$ (736,360)</u>	<u>\$ (441,660)</u>	<u>\$ 4,048,803</u>	<u>\$ 11,185,926</u>

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

**CITY OF STERLING, ILLINOIS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended April 30, 2009**

Net change in fund balances - total governmental funds \$ 527,467

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.

58,486

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	\$ (187,573)	
Payments	1,047,880	
Change in compensated absences	(23,913)	
Change in net pension obligation	1,144	
Accrued interest	<u>8,094</u>	845,632

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 (39,499)

**Change in net assets of governmental activities \$ 1,382,864**

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 - PROPRIETARY FUND TYPES**  
**Year Ended April 30, 2009**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities -</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUE</b>				
Sewer use and hook-up fees	\$ 1,704,110	\$ -	\$ 1,704,110	\$ -
Solid waste service fees	-	463,874	463,874	-
Employer contributions	-	-	-	1,120,263
Employee contributions	-	-	-	259,854
Other revenue	13,227	54	13,281	-
Total operating revenue	<u>1,717,337</u>	<u>463,928</u>	<u>2,181,265</u>	<u>1,380,117</u>
<b>OPERATING EXPENSES</b>				
Administration	-	-	-	188,603
Life insurance premiums	-	-	-	11,349
Waste water treatment plant	620,212	-	620,212	-
Solid waste disposal -	-	588,756	588,756	-
Maintenance	21,866	-	21,866	-
Billing and collection	157,752	-	157,752	-
Non-departmental	311,024	-	311,024	-
Benefit payments	-	-	-	1,229,410
Depreciation	372,630	-	372,630	-
Total operating expenses	<u>1,483,484</u>	<u>588,756</u>	<u>2,072,240</u>	<u>1,429,362</u>
Operating income (loss)	<u>233,853</u>	<u>(124,828)</u>	<u>109,025</u>	<u>(49,245)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	65,000	65,000	-
Interest income	69,182	6,993	76,175	10,429
Net change in fair value of investments	15,343	4,241	19,584	(683)
Interest expense	(59,462)	-	(59,462)	-
Total nonoperating revenues (expenses)	<u>25,063</u>	<u>76,234</u>	<u>101,297</u>	<u>9,746</u>
Net income (loss) before other financing sources (uses)	<u>258,916</u>	<u>(48,594)</u>	<u>210,322</u>	<u>(39,499)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	1,364	1,364	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>(25,000)</u>	<u>1,364</u>	<u>(23,636)</u>	<u>-</u>
Net income (loss)	233,916	(47,230)	186,686	(39,499)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>9,794,754</u>	<u>260,188</u>	<u>10,054,942</u>	<u>189,267</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 10,028,670</u>	<u>\$ 212,958</u>	<u>\$ 10,241,628</u>	<u>\$ 149,768</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 NET ASSETS**  
**PROPRIETARY FUNDS**  
April 30, 2009

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>				
Current assets				
Cash	\$ 1,345	\$ 52,668	\$ 54,013	\$ 26,888
Restricted cash	34,531	-	34,531	-
Investments	1,804,166	156,334	1,960,500	301,507
Accounts receivable (net of allowance for doubtful accounts of \$31,500 for Sewer and \$6,500 for Solid Waste)	150,204	45,199	195,403	231,641
Accrued interest	5,621	191	5,812	285
Due from other funds	795,899	-	795,899	-
Total current assets	<u>2,791,766</u>	<u>254,392</u>	<u>3,046,158</u>	<u>560,321</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	6,966,801	-	6,966,801	-
Inceptors	1,563,440	-	1,563,440	-
Storm sewers	5,000,603	-	5,000,603	-
Separation work	3,676,298	-	3,676,298	-
Construction in progress	68,479	-	68,479	-
	<u>17,424,219</u>	<u>-</u>	<u>17,424,219</u>	<u>-</u>
Accumulated depreciation	8,117,729	-	8,117,729	-
Total capital assets (net of accumulated depreciation)	<u>9,306,490</u>	<u>-</u>	<u>9,306,490</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>12,098,256</u>	<u>254,392</u>	<u>12,352,648</u>	<u>560,321</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	19,262	35,134	54,396	-
Claims payable	-	-	-	54,654
Accrued payroll	10,099	658	10,757	-
Deposits	-	320	320	-
Accrued vacation	28,960	5,322	34,282	-
Accrued interest	11,389	-	11,389	-
Due to other funds	-	-	-	355,899
Current portion of notes payable	191,634	-	191,634	-
Total current liabilities	<u>261,344</u>	<u>41,434</u>	<u>302,778</u>	<u>410,553</u>
Noncurrent liabilities				
Notes payable (net of current portion)	1,808,242	-	1,808,242	-
Total noncurrent liabilities	<u>1,808,242</u>	<u>-</u>	<u>1,808,242</u>	<u>-</u>
Total liabilities	<u>2,069,586</u>	<u>41,434</u>	<u>2,111,020</u>	<u>410,553</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,306,614	-	7,306,614	-
Unrestricted	2,722,056	212,958	2,935,014	149,768
Total net assets	<u>\$ 10,028,670</u>	<u>\$ 212,958</u>	<u>\$ 10,241,628</u>	<u>\$ 149,768</u>

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

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**Year Ended April 30, 2009**

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 1,380,117
Receipts from customers	1,731,404	468,447	2,199,851	-
Payments to employees	7,029	839	7,868	-
Payments to suppliers	(1,166,014)	(591,617)	(1,757,631)	-
Payments for premiums, claims, and related services	-	-	-	(1,679,559)
Payments from (to) other funds	(392,658)	-	(392,658)	355,899
Net cash provided by (used in) operating activities	<u>179,761</u>	<u>(122,331)</u>	<u>57,430</u>	<u>56,457</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State replacement tax	-	80,512	80,512	-
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash provided by (used in) non-capital financing activities	<u>(25,000)</u>	<u>80,512</u>	<u>55,512</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on notes payable	(204,590)	-	(204,590)	-
Interest paid on notes payable	(60,882)	-	(60,882)	-
Capital assets acquired	(18,487)	-	(18,487)	-
Proceeds from the sale of capital assets	-	1,364	1,364	-
Net cash provided by (used in) capital financing activities	<u>(283,959)</u>	<u>1,364</u>	<u>(282,595)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(1,400,344)	(123,590)	(1,523,934)	(728,387)
Proceeds from the sale of investments	1,455,834	150,051	1,605,885	426,197
Interest received	82,720	7,662	90,382	10,144
Net cash provided by (used in) investing activities	<u>138,210</u>	<u>34,123</u>	<u>172,333</u>	<u>(292,046)</u>
<b>NET CHANGE IN CASH</b>	9,012	(6,332)	2,680	(235,589)
<b>CASH, BEGINNING OF YEAR</b>	<u>26,864</u>	<u>59,000</u>	<u>85,864</u>	<u>262,477</u>
<b>CASH, END OF YEAR</b>	<u>\$ 35,876</u>	<u>\$ 52,668</u>	<u>\$ 88,544</u>	<u>\$ 26,888</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>				
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 233,853	\$ (124,828)	\$ 109,025	\$ (49,245)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	372,630	-	372,630	-
Effects of changes in operating assets and liabilities				
Accounts receivable	14,067	4,199	18,266	(231,641)
Due from other funds	(392,658)	-	(392,658)	-
Accounts payable	(55,160)	(2,861)	(58,021)	-
Claims payable	-	-	-	(18,556)
Accrued payroll	1,256	82	1,338	-
Deposits	-	320	320	-
Compensated absences	5,773	757	6,530	-
Due to other funds	-	-	-	355,899
	<u>\$ 179,761</u>	<u>\$ (122,331)</u>	<u>\$ 57,430</u>	<u>\$ 56,457</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, 2009**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ASSETS</b>		
Cash	\$ 138,382	\$ 2,573
Intergovernmental receivable	11,566	-
Accrued interest receivable	52,073	-
Investments, at fair value	18,265,604	-
<b>TOTAL ASSETS</b>	18,467,625	2,573
 <b>LIABILITIES</b>	 100	 -
 <b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	 \$ 18,467,525	 \$ 2,573

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**  
**Year Ended April 30, 2009**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 520,364	\$ -
Plan members	278,198	-
Total contributions	798,562	-
Investment income		
Interest earned	682,682	20
Net change in fair value	(3,555,073)	-
Total investment income	(2,872,391)	20
Other revenue	4,653	-
Total other revenue	4,653	-
Total additions	(2,069,176)	20
<b>DEDUCTIONS</b>		
Administrative	52,709	-
Benefits	1,292,498	-
Total deductions	1,345,207	-
<b>NET INCREASE (DECREASE)</b>	(3,414,383)	20
<b>NET ASSETS HELD IN TRUST, BEGINNING OF YEAR</b>	21,881,908	2,553
<b>NET ASSETS HELD IN TRUST, END OF YEAR</b>	\$ 18,467,525	\$ 2,573

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, 2009

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

**REPORTING ENTITY**

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

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

These financial statements present the City (the primary government) and its component unit, CGH Medical Center (Medical Center).

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

**GOVERNMENT WIDE, FUND FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING**

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

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

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

are reported 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, 2009

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

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

**Governmental Funds**

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

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

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

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

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

**Proprietary Funds**

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

**Enterprise Funds**

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

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

**Enterprise Funds (Continued)**

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, 2009

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

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

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

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

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

**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, 2009

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

**BASIS OF ACCOUNTING (CONTINUED)**

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BUDGETS**

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

The City prepares an appropriation ordinance and budget for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds. The appropriation

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**BUDGETS (CONTINUED)**

ordinance represents the legal spending limits for the City. The budget is used to control those limits. The appropriation ordinance and budget was passed on April 21, 2008. 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, 2009

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

**INVESTMENTS (CONTINUED)**

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

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

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

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

**INVENTORIES**

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

**CAPITAL ASSETS**

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

Computer equipment	5 years
Other equipment	10 years

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**CAPITAL ASSETS (CONTINUED)**

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

GASB Statement No. 34 required the City to report and depreciate newly acquired infrastructure assets effective for the year ended April 30, 2004. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008 (other than proprietary funds). The City implemented the 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 2007 property taxes which were received during 2008. The 2008 property tax levy has been deferred at April 30, 2009, as it was budgeted for fiscal year 2010.

**LONG-TERM OBLIGATIONS**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**LONG-TERM OBLIGATIONS (CONTINUED)**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

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

**Use of Restricted/Unrestricted Net Assets (Continued)**

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.

**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 appropriate 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 \$835,926 and the bank balances totaled \$961,739. Cash on hand was \$1,858.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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	\$ 2,968,204	\$ 1,436,571	\$1,531,633	\$ -	\$ -
Money Market	1,857,258	1,857,258	-	-	-
U.S. Treasuries	3,093,550	584,738	857,471	974,084	677,257
U.S. Agencies	11,444,624	817	8,269	17,013	11,418,525
Illinois Treasurer's Investment	2,339,673	2,339,673	-	-	-
Mutual Funds	3,084,594	3,084,594	-	-	-
Annuities	5,296,954	5,296,954	-	-	-
	<u>\$30,084,857</u>	<u>\$14,600,605</u>	<u>\$2,397,373</u>	<u>\$991,097</u>	<u>\$12,095,782</u>

**Investments in The Illinois Funds**

The State Treasurer maintains the Illinois Treasurer's Investment Pool (Pool) at cost and fair value through daily adjustment in the interest earnings. The State Treasurer also maintains the average duration of the Pool at less than 25 days. The Pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. The Pool maintains a Standard and Poor's 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, 2009, the City had \$2,339,673 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, 2009

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, 2009, 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, 2009, 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, 2009, was as follows:

	<u>Balance at</u> <u>May 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>April 30, 2009</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 994,516	\$ -	\$ -	\$ 994,516
Construction in progress	<u>43,628</u>	<u>320,984</u>	<u>231,203</u>	<u>133,409</u>
Total capital assets not being depreciated	<u>1,038,144</u>	<u>320,984</u>	<u>231,203</u>	<u>1,127,925</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2009</u>
<b>Governmental activities (Continued):</b>				
Capital assets being depreciated				
Buildings	1,446,297	14,300	-	1,460,597
Equipment	4,356,600	515,715	444,357	4,427,958
Land improvements	781,383	6,537	-	787,920
Infrastructure	<u>20,987,931</u>	<u>654,209</u>	<u>-</u>	<u>21,642,140</u>
 Total capital assets being depreciated	 <u>27,572,211</u>	 <u>1,190,761</u>	 <u>444,357</u>	 <u>28,318,615</u>
Less accumulated depreciation for				
Buildings	475,905	50,107	-	526,012
Equipment	2,411,024	289,939	354,470	2,346,493
Land improvements	210,521	15,536	-	226,057
Infrastructure	<u>6,977,035</u>	<u>776,587</u>	<u>-</u>	<u>7,753,622</u>
 Total accumulated depreciation	 <u>10,074,485</u>	 <u>1,132,169</u>	 <u>354,470</u>	 <u>10,852,184</u>
 Total capital assets being depreciated, net	 <u>17,497,726</u>	 <u>58,592</u>	 <u>89,887</u>	 <u>17,466,431</u>
 Governmental activities capital assets, net	 <u>\$18,535,870</u>	 <u>\$ 379,576</u>	 <u>\$ 321,090</u>	 <u>\$18,594,356</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in progress	<u>68,479</u>	<u>-</u>	<u>-</u>	<u>68,479</u>
 Total capital assets not being depreciated	 <u>217,077</u>	 <u>-</u>	 <u>-</u>	 <u>217,077</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2009</u>
<b>Business-type activities (Continued):</b>				
Capital assets being depreciated				
Buildings and equipment	6,948,314	18,487	-	6,966,801
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>17,188,655</u>	 <u>18,487</u>	 <u>-</u>	 <u>17,207,142</u>
Less accumulated depreciation:				
Buildings and equipment	3,207,609	169,624	-	3,377,233
Inceptors, mains, and pump stations	979,603	27,134	-	1,006,737
Storm sewers	1,484,696	101,845	-	1,586,541
Sewer separation work	<u>2,073,191</u>	<u>74,027</u>	<u>-</u>	<u>2,147,218</u>
 Total accumulated depreciation	 <u>7,745,099</u>	 <u>372,630</u>	 <u>-</u>	 <u>8,117,729</u>
 Total capital assets being depreciated	 <u>9,443,556</u>	 <u>(354,143)</u>	 <u>-</u>	 <u>9,089,413</u>
 Business-type activities capital assets, net	 <u>\$ 9,660,633</u>	 <u>\$(354,143)</u>	 <u>\$ -</u>	 <u>\$ 9,306,490</u>

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

Governmental activities:	
General government	\$ 96,667
Public safety	167,883
Public works and transportation	746,606
Community development	13,474
Culture and recreation	26,784
Other	<u>80,755</u>
 Total depreciation expense	 <u>\$1,132,169</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

Note 3. Capital Assets (Continued)

Business-type activities:	
Sewer	\$372,630
Solid waste	<u>          -</u>
Total depreciation expense	<u>\$372,630</u>

Note 4. Risk Management

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

The City is self-insured for employee health care, which is accounted for in an internal service fund. The City purchases specific and excess insurance to limit its exposure to loss, the specific coverage is \$50,000 per employee and \$1,191,690 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, 2007	\$ 99,697
Claims incurred	833,334
Claims paid	<u>(859,821)</u>
 Claims payable, April 30, 2008	 73,210
Claims incurred	1,229,410
Claims paid	<u>(1,247,966)</u>
 Claims payable, April 30, 2009	 <u>\$ 54,654</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2009 are summarized as follows:

	<u>Balance at</u> <u>May 1, 2008</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>April 30, 2009</u>	<u>Due Within</u> <u>1 Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$8,973,832	\$ -	\$ 757,060	\$8,216,772	\$633,264
Leases payable	284,239	-	138,889	145,350	145,350
Loans payable	32,477	187,573	126,931	93,119	93,119
Redevelopment agreements	328,000	-	25,000	303,000	25,000
Compensated absences	361,423	23,913	-	385,336	-
Net pension obligation	-	-	-	-	-
	<u>\$9,979,971</u>	<u>\$211,486</u>	<u>\$1,047,880</u>	<u>\$9,143,577</u>	<u>\$896,733</u>
<b>Business-type activities:</b>					
Notes payable	\$2,204,466	\$ -	\$204,590	\$1,999,876	\$191,634
Compensated absences	<u>27,752</u>	<u>6,530</u>	-	<u>34,282</u>	-
	<u>\$2,232,218</u>	<u>\$6,530</u>	<u>\$204,590</u>	<u>\$2,034,158</u>	<u>\$191,634</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>
2010	\$ 120,000	\$ 39,338
2011	120,000	35,317
2012	130,000	31,298
2013	140,000	26,943
2014	140,000	22,253
2015-2017	<u>465,000</u>	<u>35,024</u>
Total	<u>\$1,115,000</u>	<u>\$190,173</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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

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

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

<b><u>Year Ended</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>		
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>\$1,575,000</u>	<u>\$75,870</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, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 22,000	\$ 9,410
2011	22,000	8,184
2012	25,500	6,932
2013	25,500	5,510
2014	25,500	4,088
2015 - 2016	<u>51,000</u>	<u>3,910</u>
 Total	 <u>\$171,500</u>	 <u>\$38,034</u>

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

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 21,264	\$ 16,816
2011	22,539	15,541
2012	23,892	14,188
2013	25,325	12,755
2014	26,845	11,235
2015 - 2019	<u>160,407</u>	<u>29,993</u>
 Total	 <u>\$280,272</u>	 <u>\$100,528</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, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

During the fiscal year ended April 30, 2003, the City issued \$4,245,000 of Tax Increment Revenue Bonds, Series 2003 for the Rock River Redevelopment Project. These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on December 1 each year. Interest is at 3.80% and also paid on December 1 each year. Payments are due as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 120,000	\$ 149,340
2011	135,000	144,780
2012	155,000	139,650
2013	180,000	133,760
2014	205,000	126,920
2015 - 2019	1,415,000	498,560
2020 - 2023	<u>1,720,000</u>	<u>170,620</u>
 Total	 <u>\$3,930,000</u>	 <u>\$1,363,630</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, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ -	\$ -
2011	175,000	43,925
2012	180,000	37,800
2013	185,000	31,140
2014	195,000	24,110
2015 - 2016	<u>410,000</u>	<u>25,010</u>
Total	<u>\$1,145,000</u>	<u>\$161,985</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, 2009, the balance is \$95,735.

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, 2009, the balance is \$49,615.

**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. The loan was paid off during the year ended April 30, 2009.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Loans Payable (Continued)**

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. The loan was paid off during the year ended April 30, 2009.

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. The loan was paid off during the year ended April 30, 2009.

The City entered into a loan agreement for \$21,165 for the purchase of a mower dated July 25, 2008, with final payment due July 25, 2009. Interest is at 3.45%, with two payments of \$10,764 each due on July 25, 2008, and 2009. As of April 30, 2009, the balance is \$10,401.

Future minimum payments are as follows:

<b><u>Year Ended</u></b>			
<b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2010	<u>\$10,400</u>	<u>\$364</u>	<u>\$10,764</u>

The City entered into a loan agreement for \$56,408 for the purchase of a dump truck chassis dated October 10, 2008, with final payment due October 10, 2009. Interest is at 3.45%, with two payments of \$28,689 each due on October 10, 2008, and 2009. As of April 30, 2009, the balance is \$27,719.

Future minimum payments are as follows:

<b><u>Year Ended</u></b>			
<b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2010	<u>\$27,719</u>	<u>\$970</u>	<u>\$28,689</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Loans Payable (Continued)**

The City entered into a loan agreement for \$110,000 for the purchase of an end loader dated October 27, 2008, with final payment due October 31, 2009. Interest is at 3.39%, with payments of \$55,000 and \$56,865 due on October 31, 2008, and 2009, respectively. As of April 30, 2009, the balance is \$55,000.

Future minimum payments are as follows:

<b><u>Year Ended</u></b>			
<b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2010	<u>\$55,000</u>	<u>\$1,865</u>	<u>\$56,865</u>

**Redevelopment Agreements**

The City entered into a redevelopment agreement on December 3, 2003 which included a note for \$100,000 for redevelopment improvements. The redevelopment note bears no interest and matures on January 1, 2023. As of April 30, 2009, 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, 2009, the balance is \$235,000.

**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, 2009 are as follows:

Governmental activities	<u>\$ 385,336</u>
Business-type activities	<u>\$ 34,282</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Net Pension Obligations**

At April 30, 2009, the City had the following net pension obligations:

Police pension	\$ -
Fire pension	<u>-</u>
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, 2009, the balance is \$141,989.

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, 2009, the balance is \$1,117,727.

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, 2009, the balance is \$740,160.

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. The loan was paid off during the year ended April 30, 2009.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

Note 5. Long-Term Debt (Continued)

**Debt Service Requirement to Maturity**

<b><u>Fiscal Year</u></b> <b><u>Ending April 30</u></b>	<b><u>1991 EPA Loan</u></b>		<b><u>1997 EPA Loan</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
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	-	-	123,852	18,081
2015 - 2018	<u>-</u>	<u>-</u>	<u>532,523</u>	<u>35,207</u>
Total	<u>\$141,990</u>	<u>\$9,053</u>	<u>\$1,117,727</u>	<u>\$159,666</u>

<b><u>Fiscal Year</u></b> <b><u>Ending April 30</u></b>	<b><u>1996 EPA Loan</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 35,556	\$ 18,283
2011	36,451	17,389
2012	37,367	16,472
2013	38,307	15,532
2014	39,271	14,568
2015 - 2019	211,681	57,515
2020 - 2024	239,680	29,516
2025 - 2026	<u>101,846</u>	<u>3,153</u>
Total	<u>\$740,159</u>	<u>\$172,428</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2009:

Assessed valuation - 2008		<u>\$168,399,536</u>
Statutory debt limitation (8.625% of assessed limitation)		<u>\$ 14,524,460</u>
Total debt:		
Alternate revenue source bonds	\$3,835,000	
Tax increment revenue bonds	3,930,000	
Special service area bonds	451,772	
EPA loans payable	1,999,876	
Leases payable	145,350	
Loans payable	<u>93,119</u>	10,455,117
Less:		
Alternate revenue source bonds	3,835,000	
Tax increment revenue bonds	3,930,000	
Special service area bonds	451,772	
EPA loans payable	<u>1,999,876</u>	<u>10,216,648</u>
Total amount of debt applicable to debt limit		<u>238,469</u>
Legal debt margin		<u>\$ 14,285,991</u>

Note 7. 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, 2009, \$12,935,000 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, 2009, \$9,070,000 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, 2009, \$4,345,000 of this debt was outstanding.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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Note 7. Conduit Debt (Continued)

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, 2009, \$170,000 of this debt was outstanding.

Note 8. 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 for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The City plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multi-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at [www.imrf.org](http://www.imrf.org).

As set by statute, the City's Regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for 2008 was 2.04% of annual covered payroll. The City also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

For 2008 the City's annual pension cost of \$50,805 for the Regular plan was equal to the City's required and actual contributions.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 8. Employee Retirement Systems (Continued)

**Illinois Municipal Retirement (Continued)**

**Three-Year Trend Information for the Regular Plan**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2008	\$ 50,805	100%	\$ -
December 31, 2007	138,833	100	-
December 31, 2006	169,089	100	-

The required contribution for 2008 was determined as part of the December 31, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2006, included (a) 7.50% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and d) post-retirement benefit increases of 3% annually. The actuarial value of the City's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The City's Regular plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at the December 31, 2006, valuation was 24 years.

As of December 31, 2008, the most recent actuarial valuation date, the Regular plan was 90.68% funded. The actuarial accrued liability for benefits was \$9,102,244 and the actuarial value of assets was \$8,254,157, resulting in an underfunded actuarial accrued liability (UAAL) of \$848,087. The covered payroll (annual payroll of active employees covered by the plan) was \$2,490,445 and the ratio of the UAAL to the covered payroll was 34%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

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Note 8. 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, 2009, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	21
Current employees:	
Vested	20
Nonvested	<u>10</u>
Total	<u>51</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 17.32% 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, 2009

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Note 8. 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, 2009, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	18
Current employees:	
Vested	16
Nonvested	<u>7</u>
Total	<u>41</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 17.93% 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, 2009

Note 8. 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	\$ 290,249	\$ 228,602
Interest on net pension obligation	(9,350)	(544)
Adjustment to annual required contribution	<u>9,698</u>	<u>565</u>
Annual pension cost	290,597	228,623
Contributions made	<u>(280,220)</u>	<u>(240,144)</u>
Change in net pension obligation (asset)	10,377	(11,521)
Net pension asset, beginning of year	<u>(116,873)</u>	<u>(6,804)</u>
 Net pension asset, end of year	 <u>\$(106,496)</u>	 <u>\$ (18,325)</u>

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

Actuarial valuation date	May 1, 2008
Actuarial cost method	Entry Age Normal Cost
Actuarial value of assets	3-year Smoothed Market
Amortization method	Level Dollar Closed
Remaining amortization period	29 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  
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Note 8. 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>			
04/30/09	\$290,597	96.43%	\$(106,496)
04/30/08	214,040	137.46	(116,873)
04/30/07	203,222	164.20	(36,684)
<u>Firefighters' Pension Fund</u>			
04/30/09	\$228,623	105.04%	\$ (18,325)
04/30/08	192,141	112.28	(6,804)
04/30/07	164,616	161.80	16,785

Note 9. 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	-	50,000
	<u>25,000</u>	<u>66,000</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	-
Sewer Fund:		
General Fund	-	<u>25,000</u>
Nonmajor Governmental:		
General Fund	<u>50,000</u>	-
Total operating transfers	<u>\$91,000</u>	<u>\$91,000</u>

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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

Note 9. Interfund Balances (Continued)

**Due From/Due To Other Funds**

	<b><u>Due From Other Funds</u></b>	<b><u>Due To Other Funds</u></b>
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Rock River Tax Increment Allocation Fund	640,000	-
Nonmajor Governmental	<u>175,000</u>	<u>-</u>
	<u>1,265,000</u>	<u>-</u>
Rock River Tax Increment Allocation Fund:		
General Fund	-	640,000
Sewer Fund	-	440,000
Nonmajor Governmental	<u>-</u>	<u>410,932</u>
	<u>-</u>	<u>1,490,932</u>
CBD Tax Increment Allocation Fund:		
General Fund	-	450,000
Nonmajor Governmental	<u>-</u>	<u>402,500</u>
	<u>-</u>	<u>852,500</u>
Sewer Fund:		
Rock River Tax Increment Allocation Fund	440,000	-
Internal Service Fund	<u>355,899</u>	<u>-</u>
	<u>795,899</u>	<u>-</u>
Internal Service Fund:		
Sewer Fund	<u>-</u>	<u>355,899</u>
Nonmajor Governmental:		
General Fund	-	175,000
CBD Tax Increment Allocation Fund	402,500	-
Rock River Tax Increment Allocation Fund	410,932	-
Nonmajor Governmental	<u>20,949</u>	<u>20,949</u>
<b>Total due from/due to other funds</b>	<b><u>\$2,895,280</u></b>	<b><u>\$2,895,280</u></b>

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, 2009, 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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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Note 9. Interfund Balances (Continued)

**Due From/Due To Other Funds (Continued)**

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

The Motor Fuel Tax Fund owed the General Fund \$175,000 for reimbursement for street lighting, labor, and equipment.

Note 10. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2009:

	<u>Expenditures</u>	<u>Budget</u>
Rock River Tax Increment Allocation Fund	\$454,947	\$431,561
CBD Tax Increment Allocation Fund	428,114	428,111
Motor Fuel Tax Fund	568,137	539,342
Industrial Development Fund	140,871	128,842
Municipal Coliseum Fund	184,727	173,702
IMRF Fund	47,242	45,400
Whiteside Area Housing Fund	18,116	-
Fire Pension Fund	663,054	651,936

The following funds had deficit fund balances or deficit retained earnings at April 30, 2009:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$736,360
CBD Tax Increment Allocation Fund	441,660
Whiteside Area Housing Fund	5,162

Note 11. Component Unit - CGH Medical Center

The following is a summary of certain accounting policies and note disclosures for the CGH Medical Center. Complete financial statements and note disclosures are available in the separately issued CGH Medical Center annual report for the fiscal year ended April 30, 2009.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**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.

**Inventories**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 11. Component Unit - CGH Medical Center (Continued)

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 11. Component Unit - CGH Medical Center (Continued)

**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	28%
Medicaid	35
Blue Cross	9
Other third-party payors	20
Patients	<u>8</u>
Total	<u>100%</u>

**Classification of Revenues and Expenses**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

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 forward. The Medical Center is also classified as a Medicare Dependent Hospital. The Medical Center has included approximately \$3,031,205 of the claimed excess in Net Patient Service Revenue for the year ended April 30, 2009. 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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 11. Component Unit - CGH Medical Center (Continued)

**Net Patient Service Revenue (Continued)**

**Medicare (Continued)**

Center's Medicare cost reports have been final settled by the Medicare fiscal intermediary through April 30, 2007.

**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, 2008.

**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 50% and 14%, respectively, of the Medical Center's gross patient service revenue for the year ended April 30, 2009. 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.

In December 2008, 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 July 1, 2008 to June 30, 2009. Under the Program, the Medical Center received additional Medicaid reimbursement from the State. Cash payments of 3,670,361 were received and accrued payments of \$-0- were included in net patient revenue for the year ended April 30, 2009.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**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. 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.

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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 11. Component Unit - CGH Medical Center (Continued)

**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, 2009, the net equity in unconsolidated investees is \$4,172,011.

**Deposits and Investments**

At year end, the carrying amount of the Medical Center's cash and deposits was \$3,908,799 and the bank balances totaled \$3,794,114. Cash on hand was \$2,260.

As of April 30, 2009, 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	\$15,084,379	\$ 9,004,512	\$ 6,079,867	\$ -	\$ -
Mutual Funds	802,604	802,604	-	-	-
Federated Govt.	2,141,421	255,777	-	-	1,885,644
FNMA	3,680,765	1,343,651	2,335,769	1,345	-
U.S. Treasuries	220,151	-	220,151	-	-
FHLB	3,399,919	134,083	2,597,094	-	668,742
GNMA	649,959	-	77,333	-	572,626
FHLMC	934,477	91,955	835,125	-	7,397
FFCB	<u>521,720</u>	<u>313,032</u>	<u>208,688</u>	<u>-</u>	<u>-</u>
	<u>\$27,435,395</u>	<u>\$11,945,614</u>	<u>\$12,354,027</u>	<u>\$ 1,345</u>	<u>\$3,134,409</u>

**Interest Rate Risk**

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

**Credit Risk**

The Medical Center's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements and state statutes, seek reasonable

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 11. Component Unit - CGH Medical Center (Continued)

**Credit Risk (Continued)**

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, 2009, 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.

Transactions for the year ended April 30, 2009, are summarized as follows:

	<u>Balance</u> <u>May 1, 2008</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>April 30, 2009</u>
2003 Municipal Program Revenue Bonds	\$ 9,550,000	\$ -	\$ 480,000	\$ 9,070,000
2006 Municipal Program Revenue Bonds	13,595,000	-	660,000	12,935,000
Unamortized bond discount	<u>435,864</u>	<u>-</u>	<u>28,678</u>	<u>407,186</u>
<b>Total revenue bonds payable</b>	<u>\$22,709,136</u>	<u>\$ -</u>	<u>\$1,111,322</u>	<u>\$21,597,814</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 20089

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

**Revenue Bonds Payable (Continued)**

Annual requirements of interest and principal payments to retire debt obligations are due on May 1<sup>st</sup> each year. Interest only payments are due on October 1<sup>st</sup> each year. The debt obligations due on May 1, 2009 were paid by April 30, 2009. 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>
2010	\$ -	\$ 488,730	\$ 488,730
2011	1,185,000	954,883	2,139,883
2012	1,230,000	907,941	2,137,941
2013	1,275,000	857,465	2,132,465
2014	1,330,000	803,499	2,133,499
2015 - 2019	7,555,000	3,084,843	10,639,843
2020 - 2024	<u>9,430,000</u>	<u>1,149,775</u>	<u>10,579,775</u>
Total	<u>\$22,005,000</u>	<u>\$8,247,136</u>	<u>\$30,252,136</u>

**Capital Assets**

Capital asset activity for the year ended April 30, 2009 was as follows:

	<u>Balance at</u> <u>May 1, 2008</u>	<u>Additions</u>	<u>Transfers/</u> <u>Disposals</u>	<u>Balance at</u> <u>April 30, 2009</u>
<b>Medical Center</b>				
Land	\$ 2,395,138	\$ -	\$ -	\$ 2,395,138
Land improvements	1,934,715	22,880	283,569	1,674,026
Buildings	35,381,811	21,697,618	3,178,602	53,900,827
Rented buildings	19,919,309	96,974	-	20,016,283
Building service equipment	11,011,638	-	1,412,270	9,599,368
Moveable equipment	49,263,292	4,445,069	5,126,059	48,582,302
Construction in progress	<u>21,417,637</u>	<u>563,620</u>	<u>21,416,108</u>	<u>565,149</u>
Total cost	<u>141,323,540</u>	<u>26,826,161</u>	<u>31,416,608</u>	<u>136,733,093</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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

**Capital Assets (Continued)**

	<u>Balance at May 1, 2008</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2009</u>
Less accumulated depreciation for:				
Land improvements	1,475,620	74,984	261,775	1,288,829
Buildings	21,945,677	2,701,913	2,519,340	22,128,250
Rented buildings	5,530,949	790,022	-	6,320,971
Building service equipment	9,911,855	222,162	1,406,793	8,727,224
Moveable equipment	<u>29,110,168</u>	<u>5,504,823</u>	<u>4,670,102</u>	<u>29,944,889</u>
 Total accumulated depreciation	 <u>67,974,269</u>	 <u>9,293,904</u>	 <u>8,858,010</u>	 <u>68,410,163</u>
 <b>Total Medical Center capital assets, net</b>	 <u>\$ 73,349,271</u>	 <u>\$17,532,257</u>	 <u>\$22,558,598</u>	 <u>\$ 68,322,930</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, 2009 to be approximately \$1,085,824, which is included in accrued liabilities on the Statement of Net Assets.

**Malpractice Insurance**

During the current year, the Medical Center was insured for professional and general liability insurance coverage on a claims-made basis through the Illinois Providers' Trust (IPT). A claims-made policy covers the Medical Center for only those claims reported to IPT within reporting periods as defined in the policy. The estimated liability accrued for unpaid losses and incurred but not reported claims at year-end was \$235,151. IPT is a risk pooling arrangement among tax-exempt, not-for-profit entities designed to protect against the risk of financial loss due to the imposition of legal liability, which was established under the Illinois Religious and Charitable Risk Pooling Trust Act. Funding is based on the Medical Center's experience and future premiums can be adjusted for favorable or unfavorable retrospective experience.

Prior to joining IPT, the Medical Center purchased professional and general liability insurance to cover medical malpractice claims. The policy is a claims made policy that has a retroactive date of May 1, 1979. There are known claims and incidents that may

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2009

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

**Malpractice Insurance (Continued)**

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 12. Prior Period Adjustments

During the year ended April 30, 2009, the City wrote off an invoice that was recorded as a payable in the year ended April 30, 2004. This invoice was never paid due to poor performance on behalf of the contractor. This write-off has the following effect on beginning net assets.

	<b><u>Motor Fuel Tax Fund</u></b>
Beginning fund balance, as previously stated	\$ 400,204
Write-off of invoice	<u>91,354</u>
Beginning fund balance, as restated	<u>\$ 491,558</u>

In the fund financial statements for the year ended April 30, 2008, an error was discovered in the calculation of accrued wages, causing an understatement. This error has been corrected and has the following effect on beginning net assets:

	<b><u>General Fund</u></b>	<b><u>Library Fund</u></b>	<b><u>Coliseum Fund</u></b>	<b><u>Sewer Fund</u></b>	<b><u>Solid Waste Fund</u></b>
Beginning fund balance, as previously stated	\$8,019,180	\$790,776	\$47,243	\$9,799,111	\$260,472
Correction of error	<u>(52,855)</u>	<u>(3,025)</u>	<u>(571)</u>	<u>(4,357)</u>	<u>(284)</u>
Beginning fund balance, as restated	<u>\$7,966,325</u>	<u>\$787,751</u>	<u>\$46,672</u>	<u>\$9,794,754</u>	<u>\$260,188</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2009

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Note 13. Extraordinary Item

During the year ended April 30, 2009, the City had a large fire in a Public Works building. As insurance proceeds exceeded what was spent for repairs and replacements, an amount of \$216,969 has been recorded as an extraordinary item in the City's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF FUNDING PROGRESS**  
**April 30, 2009**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll {(b-a)/c}</b>
<b><u>Police Pension Fund</u></b>						
4/30/09	\$ 11,967,931	\$ 13,519,812	\$ 1,551,881	88.52%	\$ 1,610,367	96.37%
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%	1,483,508	51.57%
<b><u>Firemen Pension Fund</u></b>						
4/30/09	\$ 12,102,168	\$ 12,965,609	\$ 863,441	93.34%	\$ 1,250,120	69.07%
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%	1,178,495	41.08%
<b><u>IMRF</u></b>						
12/31/08	\$ 8,254,157	\$ 9,102,244	\$ 848,087	90.68%	\$ 2,490,445	34.05%
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%

For IMRF, on a market value basis, the actuarial value of assets as of December 31, 2008 is \$5,173,591. On a market basis, the funded ratio would be 56.84%.

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2009**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Property taxes:				
Corporate	\$ 388,143	\$ 386,830	\$ 386,830	\$ -
Fire protection	207,424	207,649	207,649	-
Police protection	207,424	207,649	207,649	-
Liability insurance	228,410	228,610	228,610	-
Workers' compensation	83,245	83,399	83,399	-
Road and bridge	106,500	107,133	107,133	-
Police pension	280,000	280,220	280,220	-
Fire pension	240,000	240,144	240,144	-
Total property taxes	<u>1,741,146</u>	<u>1,741,634</u>	<u>1,741,634</u>	<u>-</u>
Sales tax	<u>4,516,000</u>	<u>4,505,547</u>	<u>4,463,623</u>	<u>(41,924)</u>
Intergovernmental revenue:				
State income tax	1,481,117	1,480,060	1,373,470	(106,590)
State replacement tax	391,400	361,307	349,250	(12,057)
Township replacement tax	22,600	21,700	25,511	3,811
State grants	-	-	10,244	10,244
Blackhawk Area Task Force	51,750	78,546	70,674	(7,872)
Fire Department Wal-Mart Grant	2,000	1,000	1,000	-
Tobacco Grant	2,530	2,200	2,200	-
Bulletproof Vest Grant	880	223	677	454
Other grants	-	-	6,327	6,327
Fire protection revenue	191,195	213,059	213,059	-
Total intergovernmental revenue	<u>2,143,472</u>	<u>2,158,095</u>	<u>2,052,412</u>	<u>(105,683)</u>
Licenses and permits:				
Franchise licenses	637,500	600,000	607,410	7,410
Liquor licenses	60,000	58,000	52,520	(5,480)
Building permits	40,000	22,000	18,543	(3,457)
Other	75,000	53,000	49,301	(3,699)
Total licenses and permits	<u>812,500</u>	<u>733,000</u>	<u>727,774</u>	<u>(5,226)</u>
Fines and penalties	<u>270,600</u>	<u>208,800</u>	<u>211,642</u>	<u>2,842</u>
Charges for services	<u>60,550</u>	<u>55,550</u>	<u>56,566</u>	<u>1,016</u>
Investment income:				
Interest income	317,000	266,150	249,081	(17,069)
Unrealized loss	-	-	121,191	121,191
Total investment income	<u>317,000</u>	<u>266,150</u>	<u>370,272</u>	<u>104,122</u>
Donations	<u>330,450</u>	<u>222,609</u>	<u>172,456</u>	<u>(50,153)</u>
Other	<u>451,390</u>	<u>541,092</u>	<u>861,502</u>	<u>320,410</u>
Total revenues	<u>\$ 10,643,108</u>	<u>\$ 10,432,477</u>	<u>10,657,881</u>	<u>\$ 225,404</u>

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2009**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>EXPENDITURES</b>				
General government:				
Office of the Mayor and City Council	\$ 46,370	\$ 43,460	\$ 41,559	\$ 1,901
Office of City Clerk	108,457	104,401	105,232	(831)
Policy and Administration	326,046	272,066	269,224	2,842
Total general government	<u>480,873</u>	<u>419,927</u>	<u>416,015</u>	<u>3,912</u>
Public safety:				
Police Department				
Police Services Division	1,490,125	1,463,710	1,461,167	2,543
Administrative Services Division	311,400	306,083	307,480	(1,397)
Investigative Division	295,496	287,901	281,007	6,894
Support Services Division	608,607	582,273	575,674	6,599
Blackhawk Area Task Force Grant	51,750	66,000	70,451	(4,451)
Fire Department				
Fire Services Division	1,287,150	1,280,686	1,268,501	12,185
Administrative Services Division	158,285	154,505	154,491	14
Fire Prevention and Training Division	42,480	42,338	40,681	1,657
Total public safety	<u>4,245,293</u>	<u>4,183,496</u>	<u>4,159,452</u>	<u>24,044</u>
Public works and transportation:				
Administrative Division	170,963	172,112	166,357	5,755
Street Division	1,382,423	1,431,800	1,456,454	(24,654)
Traffic Division	54,400	52,600	40,229	12,371
Stormwater Division	19,000	25,595	25,594	1
City Shop	47,416	46,843	45,531	1,312
City Parks	70,405	109,321	128,672	(19,351)
Total public works and transportation	<u>1,744,607</u>	<u>1,838,271</u>	<u>1,862,837</u>	<u>(24,566)</u>
Community development:				
Office of Community Development	307,923	307,559	321,277	(13,718)
Other				
Contribution to police pension plan	280,000	280,220	280,220	-
Contribution to fire pension plan	240,000	240,144	240,144	-
Sterling Planning Commission	42,950	39,638	35,562	4,076
Police and Fire Commission	20,590	14,262	9,661	4,601
Non-departmental	1,743,273	1,776,959	1,705,317	71,642
Total other	<u>2,326,813</u>	<u>2,351,223</u>	<u>2,270,904</u>	<u>80,319</u>
Debt service:				
Principal	217,706	239,885	234,644	5,241
Interest	13,229	13,224	13,229	(5)
Total debt service	<u>230,935</u>	<u>253,109</u>	<u>247,873</u>	<u>5,236</u>

(continued)

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2009**

	<b>Appropriation</b>		<b>Actual</b>	<b>Variance favorable (unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES (CONTINUED)</b>				
Capital outlay	1,272,600	1,191,110	1,187,765	3,345
Total expenditures	\$ 10,609,044	\$ 10,544,695	10,466,123	\$ 78,572
Excess of revenues over expenditures			191,758	
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from notes payable	\$ 120,000	\$ 187,443	\$ 187,573	\$ 130
Sale of property	3,500	4,392	10,487	6,095
Operating transfers in	25,000	25,000	25,000	-
Operating transfers out	(66,000)	(66,000)	(66,000)	-
	\$ 82,500	\$ 150,835	157,060	\$ 6,225
Excess of revenues and other financing sources over expenditures and other financing uses			348,818	
<b>FUND BALANCE, BEGINNING OF YEAR, AS RESTATED</b>			7,966,325	
<b>FUND BALANCE, END OF YEAR</b>			\$ 8,315,143	

(continued)

**CITY OF STERLING, ILLINOIS**  
**ROCK RIVER TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2009**

	<u>Budget</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
Property	\$ 368,900	\$ 377,717	\$ 377,717	\$ -
Intergovernmental				
Federal grants	184,887	120,300	111,297	(9,003)
Interest	<u>25,750</u>	<u>8,300</u>	<u>8,042</u>	<u>(258)</u>
Total revenues	<u>\$ 579,537</u>	<u>\$ 506,317</u>	<u>497,056</u>	<u>\$ (9,261)</u>
<b>EXPENDITURES</b>				
Community development				
Other professional service	\$ 186,387	\$ 125,186	116,183	\$ 9,003
Legal service	5,000	58,000	100,189	(42,189)
Environmental/USTs	5,000	5,000	-	5,000
Redevelopment agreements	50,000	50,000	50,000	-
Miscellaneous	18,300	10,375	12,707	(2,332)
Debt service				
Principal	110,000	110,000	110,000	-
Interest	<u>216,000</u>	<u>73,000</u>	<u>65,868</u>	<u>7,132</u>
Total expenditures	<u>\$ 590,687</u>	<u>\$ 431,561</u>	<u>454,947</u>	<u>\$ (23,386)</u>
Excess of revenues over expenditures			<u>42,109</u>	
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			42,109	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(778,469)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (736,360)</u>	

**CITY OF STERLING, ILLINOIS**  
**CBD TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2009**

	Budget		Actual	Variance
	Original	Final		favorable (unfavorable)
<b>REVENUES</b>				
Taxes				
Property	\$ 283,400	\$ 281,351	\$ 281,351	\$ -
Sales	135,254	137,372	137,372	-
Interest	23,200	15,400	15,970	570
Net change in fair value of investments	-	-	1,021	1,021
Other	-	-	3,591	3,591
	<u>\$ 441,854</u>	<u>\$ 434,123</u>	<u>439,305</u>	<u>\$ 5,182</u>
Total revenues				
<b>EXPENDITURES</b>				
Community development				
Miscellaneous	\$ 1,321	\$ 1,626	1,629	\$ (3)
Debt service				
Principal	345,000	345,000	345,000	-
Interest	81,485	81,485	81,485	-
	<u>\$ 427,806</u>	<u>\$ 428,111</u>	<u>428,114</u>	<u>\$ (3)</u>
Total expenditures				
Excess of revenues over expenditures			<u>11,191</u>	
<b>OTHER FINANCING SOURCES</b>				
Operating transfers in	\$ 16,000	\$ 16,000	16,000	\$ -
	<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			<u>27,191</u>	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(468,851)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (441,660)</u>	

**CITY OF STERLING, ILLINOIS**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**April 30, 2009**

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**Note 1. Basis of Accounting**

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

**Note 2. Excess of Disbursements Over Appropriations**

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

	<u>Actual</u>	<u>Budget</u>
Rock River Tax Increment Allocation Fund	\$454,947	\$431,561
CBD Tax Increment Allocation Fund	428,114	428,111

## **SUPPLEMENTAL INFORMATION**

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING BALANCE SHEET  
April 30, 2009

	Special Revenue											Debt Service				Capital Project				Total
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Whiteside Area Housing Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund				
<b>ASSETS</b>																				
Cash	\$ 492,821	\$ 6,006	\$ 93,167	\$ -	\$ 31,646	\$ 22,166	\$ 81,051	\$ 33,309	\$ 14,357	\$ 31,885	\$ 6,838	\$ 89,803	\$ 3,587	\$ -	\$ 58,779	\$ -	\$ 472,594			
Investments		481,392		344,005		668,069		21,399							556,099		2,563,785			
Receivables (net, where applicable of allowances for uncollectibles)																				
Taxes		422,958	63,504	-	83,779	58,981	215,144	12,902	-	-	-	80,683	-	-	-	-	937,951			
Intergovernmental	31,485	19,732	2,237	-	3,403	-	940	794	-	-	-	-	36,705	-	-	-	95,316			
Accounts	50,343	-	-	12,734	-	-	-	-	-	-	-	-	-	9,600	-	-	71,677			
Notes	-	-	-	236,245	-	-	-	-	-	-	-	-	-	-	-	-	236,245			
Interest	-	3,475	-	11,131	-	803	-	25	-	-	-	-	-	-	10,547	-	25,981			
Due from other funds	-	350,000	-	-	-	81,881	-	-	-	-	-	-	-	-	-	402,500	834,381			
<b>TOTAL ASSETS</b>	<b>\$ 574,649</b>	<b>\$ 1,283,583</b>	<b>\$ 158,908</b>	<b>\$ 604,115</b>	<b>\$ 118,828</b>	<b>\$ 831,900</b>	<b>\$ 297,135</b>	<b>\$ 68,429</b>	<b>\$ 14,357</b>	<b>\$ 31,885</b>	<b>\$ 6,838</b>	<b>\$ 170,486</b>	<b>\$ 40,292</b>	<b>\$ 9,600</b>	<b>\$ 625,425</b>	<b>\$ 402,500</b>	<b>\$ 5,238,930</b>			
<b>LIABILITIES</b>																				
Accounts payable	\$ 7,719	\$ 3,543	\$ 1,118	\$ 1,464	\$ 1,050	\$ 2,960	\$ -	\$ 116	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,970			
Accrued payroll	-	7,012	6,120	-	1,323	-	-	-	-	-	-	-	-	-	-	-	14,455			
Deposits	-	-	-	11,722	80	-	-	-	-	-	-	-	-	8,450	-	-	11,802			
Due to other funds	175,000	-	-	12,499	-	-	-	-	-	-	-	-	-	-	-	-	195,949			
Deferred revenues	-	422,958	63,504	-	83,779	58,981	215,144	12,902	-	-	-	80,683	-	-	-	-	937,951			
Total liabilities	182,719	433,513	70,742	25,685	86,232	61,941	215,144	13,018	-	12,000	-	80,683	-	8,450	-	-	1,190,127			
<b>FUND BALANCE (DEFICIT)</b>																				
Reserved	391,930	850,070	88,166	578,430	32,596	769,959	81,991	55,411	14,357	31,885	(5,162)	89,803	40,292	1,150	625,425	402,500	402,500			
Unreserved	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Total fund balance (deficit)	391,930	850,070	88,166	578,430	32,596	769,959	81,991	55,411	14,357	31,885	(5,162)	89,803	40,292	1,150	625,425	402,500	4,048,813			
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 574,649</b>	<b>\$ 1,283,583</b>	<b>\$ 158,908</b>	<b>\$ 604,115</b>	<b>\$ 118,828</b>	<b>\$ 831,900</b>	<b>\$ 297,135</b>	<b>\$ 68,429</b>	<b>\$ 14,357</b>	<b>\$ 31,885</b>	<b>\$ 6,838</b>	<b>\$ 170,486</b>	<b>\$ 40,292</b>	<b>\$ 9,600</b>	<b>\$ 625,425</b>	<b>\$ 402,500</b>	<b>\$ 5,238,930</b>			

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended April 30, 2009

	Special Revenue										Debt Service					Capital Project			
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coitsiam Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Sterling Civic Center Authority Fund	Foreign Fire Insurance Fund	Whiteside Area Housing Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	Total		
<b>REVENUES</b>																			
Taxes	\$ -	\$ 391,246	\$ 59,261	\$ -	\$ 77,565	\$ 60,036	\$ 194,962	\$ 11,759	\$ -	\$ -	\$ -	\$ 81,089	\$ 220,230	\$ -	\$ -	\$ -	\$ 1,095,948		
Intergovernmental	411,444	145,506	11,725	-	17,830	-	4,926	4,163	-	-	-	-	-	-	-	-	593,594		
Charges for services	-	17,544	3,984	120,754	25,035	-	-	-	-	-	-	-	-	-	-	-	396,317		
Interest revenue	6,722	26,829	752	14,518	421	39,920	1,037	1,542	1	237	2	645	576	10	18,164	111,376			
Net change in fair value of investments	-	12,158	-	-	-	7,169	-	73	-	-	-	-	-	-	5,480	-	24,880		
Donations	-	40,007	28,947	-	-	-	-	-	-	-	-	-	-	-	-	-	68,954		
Other	50,343	13,651	113	12,744	-	25,000	39,500	-	-	17,365	12,952	2,025	-	9,416	-	-	183,109		
Total revenues	468,509	644,941	104,782	148,016	120,651	132,125	240,425	17,537	1	17,602	12,954	83,759	220,806	9,426	23,644	-	2,245,178		
<b>EXPENDITURES</b>																			
Current:																			
General government	-	-	-	-	152,141	47,242	232,156	-	-	-	-	-	-	-	-	-	431,539		
Public safety	-	-	-	-	-	-	-	5,113	-	17,795	-	-	-	-	-	-	22,908		
Public works and transportation	345,948	-	-	-	-	-	-	-	-	-	-	-	453	10,316	-	-	396,717		
Community development	-	-	-	134,334	-	-	-	-	-	-	18,116	-	-	-	-	-	152,450		
Culture and recreation	-	561,917	89,435	-	-	-	-	-	-	-	-	-	-	-	-	-	651,352		
Debt service	115,000	-	-	-	31,176	-	-	-	-	-	42,060	170,000	-	-	-	-	358,236		
Principal	43,017	-	-	-	1,410	-	-	-	-	-	28,493	48,293	-	-	-	-	121,213		
Interest	64,172	22,067	-	6,537	-	-	-	-	-	-	13,567	-	-	-	-	-	92,776		
Capital outlay	568,137	583,984	89,435	140,871	184,727	47,242	232,156	5,113	-	17,795	18,116	70,553	218,746	10,316	-	-	2,187,191		
Total expenditures	(99,628)	60,957	15,347	7,145	(64,076)	84,883	8,269	12,424	1	(193)	(5,162)	13,206	2,060	(890)	23,644	-	57,987		
Excess (deficiency) of revenues over expenditures	-	1,362	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>OTHER FINANCING SOURCES (USES)</b>																			
Sale of property	-	1,362	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,362		
Operating transfers in	-	-	-	-	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000		
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total other financing sources (uses)	-	1,362	-	-	50,000	-	-	-	-	-	-	-	-	-	-	-	51,362		
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(99,628)	62,319	15,347	7,145	(14,076)	84,883	8,269	12,424	1	(193)	(5,162)	13,206	2,060	(890)	23,644	-	109,349		
<b>FUND BALANCE, BEGINNING OF YEAR</b>	491,558	787,751	72,819	571,285	46,672	685,076	73,722	42,987	14,356	32,078	-	76,597	38,232	2,040	601,781	402,500	3,939,454		
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	\$ 391,930	\$ 850,070	\$ 88,166	\$ 578,430	\$ 32,596	\$ 769,959	\$ 81,991	\$ 55,411	\$ 14,357	\$ 31,885	\$ (5,162)	\$ 89,803	\$ 40,292	\$ 1,150	\$ 625,425	\$ 402,500	\$ 4,048,803		

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**April 30, 2009**

	<b>Pension Trust Funds</b>		
	<b>Policemen's</b>	<b>Firemen's</b>	<b>Totals</b>
	<b>Pension</b>	<b>Pension</b>	
	<b>Fund</b>	<b>Fund</b>	
<b>ASSETS</b>			
Cash	\$ 14,449	\$ 123,933	\$ 138,382
Accounts receivable	-	11,566	11,566
Accrued interest receivable	22,017	30,056	52,073
Investments, at fair value	<u>9,224,415</u>	<u>9,041,189</u>	<u>18,265,604</u>
<b>TOTAL ASSETS</b>	<u>9,260,881</u>	<u>9,206,744</u>	<u>18,467,625</u>
<b>LIABILITIES</b>	<u>-</u>	<u>100</u>	<u>100</u>
<b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 9,260,881</u>	<u>\$ 9,206,644</u>	<u>\$ 18,467,525</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**Year Ended April 30, 2009**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 280,220	\$ 240,144	\$ 520,364
Plan members	159,588	118,610	278,198
Total contributions	<u>439,808</u>	<u>358,754</u>	<u>798,562</u>
Investment income			
Interest earned	336,711	345,971	682,682
Net change in fair value	<u>(1,717,338)</u>	<u>(1,837,735)</u>	<u>(3,555,073)</u>
Total investment income	<u>(1,380,627)</u>	<u>(1,491,764)</u>	<u>(2,872,391)</u>
Other revenue	<u>3,916</u>	<u>737</u>	<u>4,653</u>
Total additions	<u>(936,903)</u>	<u>(1,132,273)</u>	<u>(2,069,176)</u>
<b>DEDUCTIONS</b>			
Administrative	39,766	12,943	52,709
Benefits	<u>642,387</u>	<u>650,111</u>	<u>1,292,498</u>
Total deductions	<u>682,153</u>	<u>663,054</u>	<u>1,345,207</u>
<b>NET DECREASE</b>	<u>(1,619,056)</u>	<u>(1,795,327)</u>	<u>(3,414,383)</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>			
<b>BENEFITS, BEGINNING OF YEAR</b>	<u>10,879,937</u>	<u>11,001,971</u>	<u>21,881,908</u>
<b>NET ASSETS HELD IN TRUST FOR</b>			
<b>PENSION BENEFITS, END OF YEAR</b>	<u>\$ 9,260,881</u>	<u>\$ 9,206,644</u>	<u>\$ 18,467,525</u>



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, 2009, and have issued our report thereon dated October 8, 2009. 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., P.C.*

Rockford, Illinois  
October 8, 2009