

**CITY OF STERLING, ILLINOIS**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended April 30, 2011**

CITY OF STERLING, ILLINOIS

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CITY OF STERLING, ILLINOIS

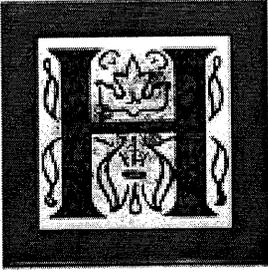
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of and for the year ended April 30, 2011, 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's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the CGH Medical, (Discretely Presented Component Unit) which represent 99.9 percent of the assets, net assets and revenues of the discretely presented component units. 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 Units), 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of April 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2011 on our consideration of the City's internal control over financial reporting and our tests of its

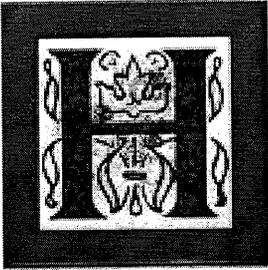
compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over 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 information listed in the table of contents identified as “Management Discussion and Analysis” and “Required Supplementary Information” is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the budgetary comparison schedules from page 81-89 is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in the Management’s Discussion and Analysis from page 7-17 and in the Schedule of Funding Progress on page 80 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling, Illinois’ financial statements as a whole. The schedules listed in the table of contents as “Supplemental Information” are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The “Supplemental Information” and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hopkins & Assoc.*

Granville, Illinois  
September 23, 2011



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND 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 basic financial statements of City of Sterling as of and for the year ended April 30, 2011, and have issued our report thereon dated September 23, 2011. 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.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

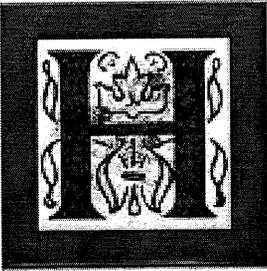
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

In accordance with SAS No. 114, *The Auditor's Communication With Those Charged With Governance*, we have addressed all required communications with the City Council.

This report is intended solely for the information and use 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.

*Hopkins & Assoc.*

Granville, Illinois  
September 23, 2011



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited City of Sterling's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2011. City of Sterling's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Sterling's management. Our responsibility is to express an opinion on City of Sterling's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sterling's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Sterling's compliance with those requirements.

In our opinion, City of Sterling complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2011.

## Internal Control Over Compliance

Management of City of Sterling is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Sterling's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Sterling's internal control over compliance.

A deficiency in a City's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

This report is intended for the information of the City Council, 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.

*Hopkins & Assoc.*

Granville, Illinois  
September 23, 2011

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

## Management's Discussion and Analysis

This discussion and analysis of the City of Sterling's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended April 30, 2011. 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 \$30,502,738 (net assets). Of this amount, \$8,516,020 (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 \$216,684 from the prior year. The net assets of the City's business-type activities increased by \$149,424, or 1.4%, and the net assets of the City's governmental activities increased by \$67,260, or .3%.
- In the City's governmental activities, revenues increased \$1,267,188, or 9.1%, and expenses increased \$279,179, or 1.9%.
- In the City's business-type activities, revenues increased \$307,498, or 13.4%, and expenses increased \$235,694, or 10.6%.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8,381,421, or 87.7% 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).

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

fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works and transportation, community development, and culture and recreation. The business-type activities of the City include sewer and solid waste operations.

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

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

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

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

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

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 \$30,502,738 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.

The largest portion of the City's net assets (51.5%) 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)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2010 - FY 2011
Current and other assets	\$ 25.5	\$ 15.6	\$ 3.1	\$ 3.0	\$ 28.6	\$ 18.6	53.8%
Capital assets	18.5	18.7	9.1	9.2	27.6	27.9	-1.1%
Total assets	<u>\$ 44.0</u>	<u>\$ 34.3</u>	<u>\$ 12.2</u>	<u>\$ 12.2</u>	<u>\$ 56.2</u>	<u>\$ 46.5</u>	20.9%
Long-term liabilities							
outstanding	\$ 17.0	\$ 7.7	\$ 1.6	\$ 1.8	\$ 18.6	\$ 9.5	95.8%
Other liabilities	7.0	6.7	0.2	0.1	7.2	6.8	5.9%
Total liabilities	<u>\$ 24.0</u>	<u>\$ 14.4</u>	<u>\$ 1.8</u>	<u>\$ 1.9</u>	<u>\$ 25.8</u>	<u>\$ 16.3</u>	58.3%
Net assets:							
Invested in capital							
assets, net of debt	\$ 8.2	\$ 11.3	\$ 7.4	\$ 7.4	\$ 15.6	\$ 18.7	-16.6%
Restricted	6.2	2.3	-	-	6.2	2.3	169.6%
Unrestricted	5.6	6.3	3.0	2.9	8.6	9.2	-6.5%
Total net assets	<u>\$ 20.0</u>	<u>\$ 19.9</u>	<u>\$ 10.4</u>	<u>\$ 10.3</u>	<u>\$ 30.4</u>	<u>\$ 30.2</u>	0.7%

An additional portion of the City's net assets (20.6%) represents resources that are subject to external restrictions on how they may be used. There was an increase of \$3,958,063 in restricted net assets reported in connection with the City's governmental funds. A majority of this increase is due to the issuance of \$4 million in bonds for the Coliseum remodel, which is to take place in fiscal year 2012.

The remaining balance of *unrestricted net assets* (\$8,516,020, or 27.9% of total net assets) may be used to meet the City's ongoing obligations to citizens and creditors. There was a decrease of \$726,947 in unrestricted net assets reported in connection with the City's governmental 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 \$216,684 during the current fiscal year.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2011	FY 2010	FY 2011	FY 2010	FY 2011	FY 2010	FY 2010 - FY 2011
<b>Revenues:</b>							
Program revenues:							
Charges for services	\$ 1.8	\$ 1.6	\$ 2.5	\$ 2.2	\$ 4.3	\$ 3.8	13.2%
Operating grants and contributions	1.2	0.5	-	-	1.2	0.5	140.0%
Capital grants and contributions	0.5	0.2	-	-	0.5	0.2	150.0%
General revenues:							
Property taxes	4.0	3.4	-	-	4.0	3.4	17.6%
Other taxes	6.8	6.6	-	-	6.8	6.6	3.0%
Other	1.0	1.7	0.1	-	1.1	1.7	-35.3%
Total revenues	<u>15.3</u>	<u>14.0</u>	<u>2.6</u>	<u>2.2</u>	<u>17.9</u>	<u>16.2</u>	10.5%
Program expenses:							
General government	2.3	2.6	-	-	2.3	2.6	-11.5%
Public safety	4.2	5.6	-	-	4.2	5.6	-25.0%
Public works and transportation	2.9	3.0	-	-	2.9	3.0	-3.3%
Community development	3.1	1.2	-	-	3.1	1.2	158.3%
Culture and recreation	0.6	0.7	-	-	0.6	0.7	-14.3%
Other	1.7	1.6	-	-	1.7	1.6	6.2%
Interest on long-term debt	0.4	0.2	-	-	0.4	0.2	100.0%
Sewer	-	-	1.5	1.6	1.5	1.6	-6.3%
Solid waste	-	-	0.9	0.6	0.9	0.6	50.0%
Total expenses	<u>15.2</u>	<u>14.9</u>	<u>2.4</u>	<u>2.2</u>	<u>17.6</u>	<u>17.1</u>	2.9%
Change in net assets	0.1	(0.9)	0.2	-	0.3	(0.9)	133.3%
Net assets, beginning of year, as restated	<u>19.9</u>	<u>20.8</u>	<u>10.3</u>	<u>10.3</u>	<u>30.2</u>	<u>31.1</u>	-2.9%
Net assets, end of year	<u>\$ 20.0</u>	<u>\$ 19.9</u>	<u>\$ 10.5</u>	<u>\$ 10.3</u>	<u>\$ 30.5</u>	<u>\$ 30.2</u>	1.0%

Governmental activities increased the City's net assets by \$67,260. Key elements of this increase are as follows:

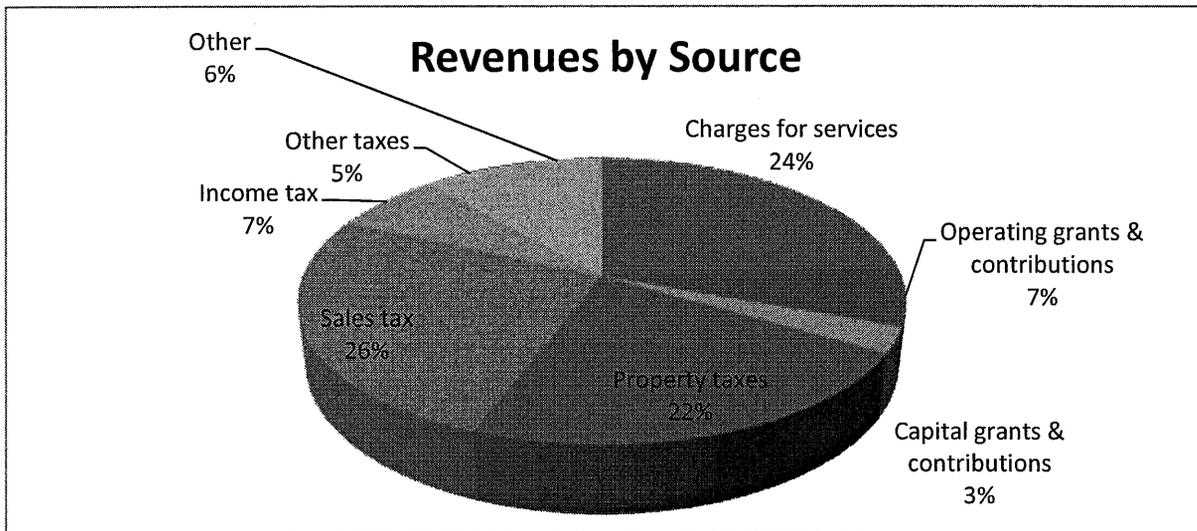
- Governmental revenues increased by approximately 9%. A majority of this increase (\$1,000,000, or 79%) was due to a federal grant to assist with the NWSW cleanup. Other significant changes in revenues were as follows:
  - Property taxes – up 16.1%

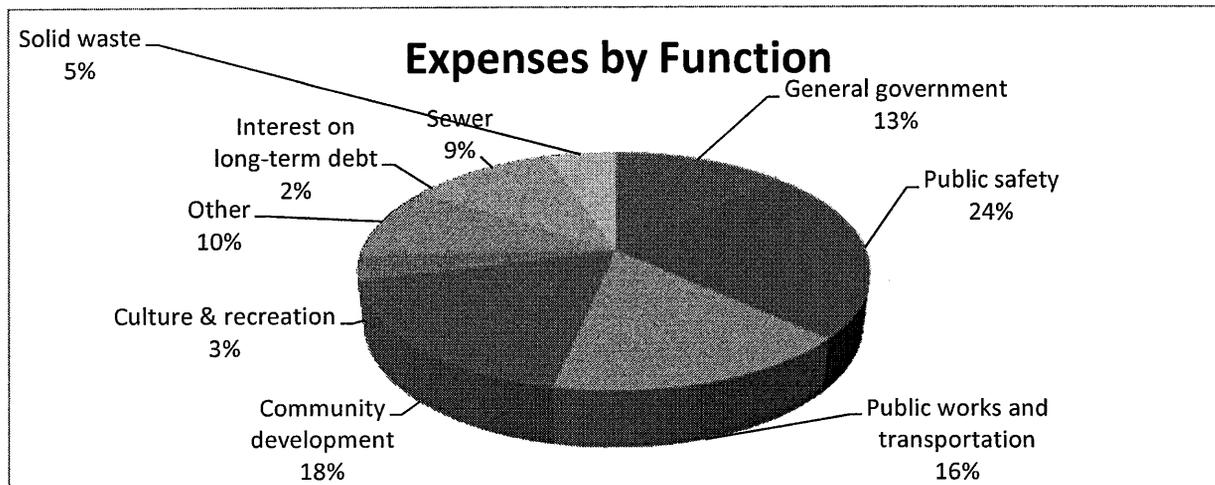
- Other revenue – down 59.8% (due to large reimbursement in MFT Fund in prior year)
- Governmental expenses increased by approximately 1.9%. This increase is mainly due to inflation.

Business-type activities increased the City’s net assets by \$149,424. Key elements of this increase are as follows:

- Business-type revenues increased by approximately 13.4%. This increase is mainly related to the 86% increase in monthly garbage fees. In July 2010, the City changed from the bag-system of garbage collection to using carts. This change increased the monthly billed fee for customers, however, they did not have to purchase bags separately.
- Business-type expenses increased by approximately 10.8%, which is due to the increase in garbage expense. This increase was due to the change from bags to carts for garbage collection.

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





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, 58% of the City's expenses were for public safety, public works and transportation, and community development. Expenses for general government, sewer operations, and other activities were all between 9% and 15% of total costs, while culture and recreation, solid waste, and interest expenses made up the bottom 10% of all costs.

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,454,658, an increase of \$3,745,387 in comparison with the prior year. Approximately 69% of this total amount (\$9,992,688) 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 \$8,381,421, while the total fund balance reached \$8,440,891. 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 87.7% of total General Fund expenditures, while total fund balance represents 88.3% of that same amount.

The fund balance of the City's General Fund increased by \$428,471 during the current fiscal year. The prior year General Fund balance decreased by \$322,402. This net increase of \$750,873 between years was due to a 5.4% increase in General Fund revenues that were offset by only a 3.2% decrease 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 \$2,895,878, and those for the Solid Waste Fund amounted to \$106,353. The total growth (reduction) in net assets for both funds was \$175,796 and \$(26,372), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor (\$3,054, or .03% decrease in appropriations) and can be briefly summarized as follows:

- \$11,208 in miscellaneous decreases in general government activities
- \$167,680 in increases in public safety (mainly due to increases in salaries and overtime for fire services)
- \$34,475 in miscellaneous decreases in public works and transportation
- \$21,263 in miscellaneous decreases in community development activities
- \$84,658 in decreases for other expenditures (mainly due to a decrease in the fuel provided to not-for-profit entities)
- \$19,130 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, 2011, amounts to \$27,538,900 (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 approximately 1.3% (a 1.2% decrease for governmental activities and a 1.6% decrease for business-type activities).

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

- The Waters Court Sewer Separation Project was completed at a cost of \$125,000.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2009</u>	<u>FY 2010 - FY 2011</u>
Land	\$ 1.1	\$ 1.0	\$ 0.1	\$ 0.1	\$ 1.2	\$ 1.1	9.1%
Construction in progress	0.3	0.1	-	-	0.3	0.1	200.0%
Buildings and equipment	6.3	5.9	7.0	7.0	13.3	12.9	3.1%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	23.1	22.9	10.8	10.6	33.9	33.5	1.2%
Subtotal	31.6	30.7	17.9	17.7	49.5	48.4	2.3%
Less: accumulated depreciation	13.2	12.0	8.8	8.5	22.0	20.5	7.3%
Total	<u>\$ 18.4</u>	<u>\$ 18.7</u>	<u>\$ 9.1</u>	<u>\$ 9.2</u>	<u>\$ 27.5</u>	<u>\$ 27.9</u>	-1.4%

**Long-term debt.** At the end of the current fiscal year, the City had \$18,572,813 in bonds and notes outstanding, which is an increase of \$9,078,064, or 95.6%, over the prior year.

During the current fiscal year, the City issued the following bonds:

- \$6,120,000 General Obligation Bonds, Series 2010A for the Lincolnway-Lynn TIF Project
- \$4,000,000 Taxable General Obligation Bonds, Series 2010D for the Municipal Coliseum Remodel Project.

During the current fiscal year, the City refinanced some of its existing debt to take advantage of favorable interest rates:

- \$1,270,000 General Obligation Refunding Bonds, Series 2010B to refinance the previously outstanding CBD TIF bonds, resulting in an expected decrease in future debt service payments of \$15,678
- \$995,000 General Obligation Refunding Bonds, Series 2010C to refinance the previously outstanding Lynn Boulevard Project bonds, resulting in an expected decrease in future debt service payments of \$18,408

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2009</u>	<u>FY 2010 - FY 2011</u>
Bonds payable	\$ 16.7	\$ 7.4	\$ -	\$ -	\$ 16.7	\$ 7.4	125.7%
Loans payable	-	-	1.6	1.8	1.6	1.8	-11.1%
Redevelopment agreements	<u>0.3</u>	<u>0.3</u>	-	-	<u>0.3</u>	<u>0.3</u>	0.0%
<b>Total</b>	<u>\$ 17.0</u>	<u>\$ 7.7</u>	<u>\$ 1.6</u>	<u>\$ 1.8</u>	<u>\$ 18.6</u>	<u>\$ 9.5</u>	95.8%

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 8.625% of its total assessed valuation. The current debt limit for the City is \$18,319,814, which is significantly in excess of the City’s outstanding general obligation debt of \$-0-.

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

The City’s Council and staff considered many factors while preparing the fiscal year 2012 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 2012 fiscal year are \$10,418,186, an increase of 2.9% over the final fiscal year 2011 budget of \$10,126,355. Small increases in property and sales taxes are expected to cause this increase. The City will use these increases in revenue to finance programs that are currently offered and the expected impact of inflation on program costs.

Budgeted expenditures in the General Fund are expected to increase \$923,585, or approximately 9.1%, to \$11,026,502. The largest increments of this increase are as follows:

- Expenses related to the Municipal Coliseum remodel are expected to increase by \$150,000 or 16% of the budgeted expected increase.
- Redevelopment agreement costs are expected to increase by \$105,000 or 11% of the budgeted expected increase.
- Pension contributions are expected to increase by \$96,828, or 10% of the budgeted expected increase.

If these estimates are realized, the City's budgetary General Fund balance is expected to decrease by \$608,316 by the close of fiscal year 2012.

### **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, 2011**

	Primary Government			Component Units
	Governmental Activities	Business - type Activities	Total	
<b>ASSETS</b>				
Cash	\$ 3,065,621	\$ 1,325,840	\$ 4,391,461	\$ 5,819,114
Restricted cash	-	49,153	49,153	-
Investments	10,310,250	1,534,311	11,844,561	-
Taxes receivable	4,302,741	-	4,302,741	-
Intergovernmental receivables	1,568,742	8,038	1,576,780	-
Accounts receivable (net of allowance for uncollectibles)	5,454,691	235,716	5,690,407	23,184,431
Notes receivable (net of allowance for uncollectibles)	290,478	-	290,478	-
Interest receivable	37,656	7,855	45,511	174,135
Other receivables	-	-	-	713,256
Estimated third-party payor settlements	-	-	-	15,515
Due from unconsolidated investees	-	-	-	167,614
Inventories	59,470	-	59,470	2,386,174
Prepaid expenses	-	-	-	2,551,930
Net pension asset	72,060	-	72,060	-
Other assets	344,841	-	344,841	-
Capital assets:				
Land and construction in progress	1,362,767	168,136	1,530,903	-
Infrastructure, net	13,788,092	-	13,788,092	-
Other capital assets, net	3,310,755	8,909,150	12,219,905	74,075,740
Assets limited as to use	-	-	-	45,781,498
Unamortized bond issue costs	-	-	-	253,429
Investment in real estate	-	-	-	1,964,530
Goodwill	-	-	-	1,262,399
Other investments	-	-	-	30,942
Net equity in unconsolidated investees	-	-	-	5,035,885
Total assets	<u>\$ 43,968,164</u>	<u>\$ 12,238,199</u>	<u>\$ 56,206,363</u>	<u>\$ 163,416,592</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 311,268	\$ 95,949	\$ 407,217	\$ 7,634,441
Claims payable	40,704	-	40,704	-
Accrued payroll	153,931	14,670	168,601	-
Accrued interest	95,033	9,227	104,260	-
Deposits	16,702	320	17,022	-
Deferred revenue	4,413,231	-	4,413,231	-
Estimated third-party payor settlements	-	-	-	6,697,697
Other current liabilities	-	-	-	13,959,101
Accrued compensated absences	386,993	38,516	425,509	-
Other postemployment benefits obligation	1,554,268	-	1,554,268	-
Long-term liabilities:				
Due within one year	359,392	203,335	562,727	5,986,077
Due in more than one year	16,602,576	1,407,510	18,010,086	31,423,553
Total liabilities	<u>\$ 23,934,098</u>	<u>\$ 1,769,527</u>	<u>\$ 25,703,625</u>	<u>\$ 65,700,869</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 8,230,798	\$ 7,466,441	\$ 15,697,239	\$ 64,464,976
Restricted for:				
Special revenue	2,090,150	-	2,090,150	-
Levied Purposes	59,470	-	59,470	-
Debt service	4,087,755	-	4,087,755	-
Health development	-	-	-	2,766,230
Capital projects	52,104	-	52,104	-
Unrestricted	5,513,789	3,002,231	8,516,020	30,484,517
Total net assets	<u>\$ 20,034,066</u>	<u>\$ 10,468,672</u>	<u>\$ 30,502,738</u>	<u>\$ 97,715,723</u>
Total liabilities and net assets	<u>\$ 43,968,164</u>	<u>\$ 12,238,199</u>	<u>\$ 56,206,363</u>	<u>\$ 163,416,592</u>

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

CITY OF STERLING, ILLINOIS  
STATEMENT OF ACTIVITIES  
Year Ended April 30, 2011

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		Total	
					Governmental Activities	Business-Type Activities		
Primary government								
Governmental activities:								
General government	\$ 2,244,061	\$ 1,352,676	\$ -	\$ -	\$ (891,385)	\$ -	\$ (891,385)	\$ -
Public safety	4,238,822	208,043	96,245	51,815	(3,882,719)	-	(3,882,719)	-
Public works and transportation	2,904,753	-	-	-	(2,904,753)	-	(2,904,753)	-
Community development	3,113,865	185,873	1,066,750	420,094	(1,441,148)	-	(1,441,148)	-
Culture and recreation	604,905	42,538	53,444	30,623	(478,300)	-	(478,300)	-
Other	1,716,472	-	-	-	(1,716,472)	-	(1,716,472)	-
Interest on long-term debt	371,361	-	-	-	(371,361)	-	(371,361)	-
Total governmental activities	15,194,239	1,789,130	1,216,439	502,532	(11,686,138)	-	(11,686,138)	-
Business-type activities:								
Sewer	\$ 1,524,910	\$ 1,662,343	\$ -	\$ -	\$ -	\$ 137,433	\$ 137,433	\$ -
Solid waste	901,119	789,596	5,750	-	-	(105,773)	(105,773)	-
Total business-type activities	2,426,029	2,451,939	5,750	-	-	31,660	31,660	-
Total primary government	\$ 17,620,268	\$ 4,241,069	\$ 1,222,189	\$ 502,532	\$ (11,686,138)	\$ 31,660	\$ (11,654,478)	\$ -
Component unit								
CGH Medical Center	\$ 139,353,668	\$ 139,054,266	\$ 365,153	\$ -	\$ -	\$ -	\$ 65,751	\$ 65,751
Foreign Fire Insurance Board	40,691	-	-	-	-	-	(40,691)	(40,691)
General Revenues:								
Property taxes, levied for general purposes					\$ 3,985,135	\$ -	\$ 3,985,135	\$ -
Sales tax					4,645,572	-	4,645,572	-
Personal property replacement tax					479,196	60,126	539,322	-
Income tax and surcharge					1,206,928	-	1,206,928	-
Fire protection revenue					201,503	-	201,503	-
Motor fuel tax					467,348	-	467,348	-
Investment income					286,388	78,597	364,985	-
Increase in net equity in unconsolidated investees					-	-	-	251,309
Other					451,396	3,270	454,666	812,758
Special item - gain (loss) on disposal of asset					4,932	771	5,703	4,965,049
Transfers - internal activity					25,000	(25,000)	-	(12,702)
Total general revenues and transfers					\$ 11,753,398	\$ 117,764	\$ 11,871,162	\$ 6,016,414
Change in net assets					67,260	149,424	216,684	6,041,474
NET ASSETS, BEGINNING OF YEAR, AS RESTATED					19,966,806	10,319,248	30,286,054	91,674,249
NET ASSETS, END OF YEAR					\$ 20,034,066	\$ 10,468,672	\$ 30,502,738	\$ 97,715,723

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, 2011**

	Lincolnway-						Total
	General Fund	NWSW Redevelopment Fund	Municipal Coliseum Fund	Lynn Tax Increment Allocation Fund	CBD Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	
<b>ASSETS</b>							
Cash	\$ 419,642	\$ 500	\$ 1,398,242	\$ -	\$ 2,809	\$ -	\$ 2,754,932
Investments	6,072,434	-	-	558,474	352,257	1,349,427	10,132,991
Receivables							
Taxes	2,440,033	-	87,245	-	298,005	558,746	4,302,741
Intergovernmental	1,355,332	-	1,958	-	18,000	985	1,568,742
Accounts receivable	146,644	7,500	290	-	-	-	195,696
Notes	-	-	-	-	-	-	290,478
Interest	13,265	-	-	-	1,245	-	37,448
Inventory	59,470	-	-	-	-	-	59,470
Due from other funds	718,240	-	2,796,864	-	-	-	3,917,604
<b>TOTAL ASSETS</b>	<b>\$ 11,225,060</b>	<b>\$ 8,000</b>	<b>\$ 4,284,599</b>	<b>\$ 558,474</b>	<b>\$ 672,316</b>	<b>\$ 1,909,158</b>	<b>\$ 23,260,102</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 95,980	\$ 96,113	\$ 1,758	\$ 968	\$ -	\$ 10,523	\$ 293,518
Accrued payroll	138,637	-	1,713	-	-	-	153,931
Interest payable	-	-	10,458	-	-	-	10,458
Deposits	2,000	7,500	-	-	-	-	7,202
Due to other funds	-	523,129	-	121,942	852,500	2,273,735	3,917,604
Deferred revenue	2,547,552	-	87,245	-	298,005	558,746	4,413,231
Total liabilities	\$ 2,784,169	\$ 626,742	\$ 101,174	\$ 122,910	\$ 1,150,505	\$ 2,843,004	\$ 8,805,444
<b>FUND EQUITY</b>							
Fund balance	\$ 59,470	\$ -	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 4,461,970
Reserved							
Unreserved							
General	8,381,421	-	-	-	-	-	8,381,421
Special revenue	-	-	183,425	435,564	(478,189)	(933,846)	2,090,150
Debt service	-	-	-	-	-	-	87,755
Capital project	-	(618,742)	-	-	-	-	(566,638)
Total fund equity	\$ 8,440,891	\$ (618,742)	\$ 4,183,425	\$ 435,564	\$ (478,189)	\$ (933,846)	\$ 14,454,658
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 11,225,060</b>	<b>\$ 8,000</b>	<b>\$ 4,284,599</b>	<b>\$ 558,474</b>	<b>\$ 672,316</b>	<b>\$ 1,909,158</b>	<b>\$ 23,260,102</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, 2011**

Total governmental fund balances		\$ 14,454,658
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 \$13,156,739		18,461,614
Capital asset purchase included in accounts payable at June 30, 2011		(17,750)
Other long-term assets are not due and receivable in the current period and therefore are not reported in the funds:		
Advance of bond proceeds to developer		5,258,633
Net pension asset		72,060
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(12,670,000)
Tax increment bonds payable		(3,675,000)
Special service area bonds payable		(363,969)
Redevelopment agreements payable		(253,000)
Other postemployment benefit obligation		(1,554,268)
Compensated absences		(386,993)
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.		(84,574)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$441,189 and accumulated amortization is \$96,348.		344,841
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	\$ 488,518	
Liabilities	(40,704)	<u>447,814</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 20,034,066</u></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**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE (DEFICIT)**  
**GOVERNMENTAL FUNDS**  
**Year Ended April 30, 2011**

	General Fund	NWSW Redevelopment Fund	Municipal Coliseum Fund	Lincolnway-		CBD Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
				Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund				
<b>REVENUES</b>									
Taxes	\$ 6,671,996	\$ -	\$ 79,742	\$ -	\$ 398,403	\$ 486,255	\$ 994,311	\$ 8,630,707	
Intergovernmental	1,902,410	1,000,000	14,647	-	-	5,750	828,737	3,751,544	
Licenses and permits	768,742	-	-	-	-	-	-	768,742	
Fines and penalties	208,043	-	-	-	-	-	-	208,043	
Charges for services	64,569	64,000	23,704	-	-	-	140,707	292,980	
Investment income	189,909	3,948	3,067	25,483	13,968	171	40,524	277,070	
Donations	137,500	116,760	-	-	-	-	68,142	322,402	
Other	353,397	-	-	67,600	-	-	105,399	526,396	
<b>Total revenues</b>	<b>\$ 10,296,566</b>	<b>\$ 1,184,708</b>	<b>\$ 121,160</b>	<b>\$ 93,083</b>	<b>\$ 412,371</b>	<b>\$ 492,176</b>	<b>\$ 2,177,820</b>	<b>\$ 14,777,884</b>	

<b>EXPENDITURES</b>								
Current								
General government	\$ 402,541	\$ -	\$ 278,603	\$ -	\$ -	\$ -	\$ 495,485	\$ 1,176,629
Public safety	4,069,758	-	-	-	-	-	6,000	4,075,758
Public works and transportation	1,834,481	-	-	-	-	-	280,828	2,115,309
Community development	289,552	2,245,587	-	334,257	20,832	337,288	146,276	3,373,792
Culture and recreation	-	-	-	-	-	-	618,579	618,579
Other	2,494,240	-	-	-	-	-	-	2,494,240
Debt service								
Principal	-	-	-	-	425,000	135,000	354,539	914,539
Interest	-	-	-	227,323	44,685	13,538	88,165	373,711
Capital outlay	465,337	72,103	42,334	-	-	-	357,723	937,497
<b>Total expenditures</b>	<b>\$ 9,555,909</b>	<b>\$ 2,317,690</b>	<b>\$ 320,937</b>	<b>\$ 561,580</b>	<b>\$ 490,517</b>	<b>\$ 485,826</b>	<b>\$ 2,347,595</b>	<b>\$ 16,080,054</b>
Excess (deficiency) of revenues over expenditures	\$ 740,657	\$ (1,132,982)	\$ (199,777)	\$ (468,497)	\$ (78,146)	\$ 6,350	\$ (169,775)	\$ (1,302,170)

<b>OTHER FINANCING SOURCES (USES)</b>								
Bond proceeds	\$ -	\$ -	\$ 4,000,000	\$ 6,199,757	\$ 1,270,841	\$ -	\$ 1,000,660	\$ 12,471,258
Payments to refunded bond escrow agent	-	-	-	-	(1,225,000)	-	(970,000)	(2,195,000)
Advance of bond proceeds to developer	-	-	-	(5,258,633)	-	-	-	(5,258,633)
Sale of property	3,814	-	-	-	-	-	1,118	4,932
Operating transfers in	25,000	-	339,359	-	16,000	-	-	380,359
Operating transfers out	(341,000)	-	-	-	-	-	(14,359)	(355,359)
<b>Total other financing sources (uses)</b>	<b>\$ (312,186)</b>	<b>\$ -</b>	<b>\$ 4,339,359</b>	<b>\$ 941,124</b>	<b>\$ 61,841</b>	<b>\$ -</b>	<b>\$ 17,419</b>	<b>\$ 5,047,557</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	428,471	(1,132,982)	4,139,582	472,627	(16,305)	6,350	(152,356)	3,745,387

<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	8,012,420	514,240	43,843	(37,063)	(461,884)	(940,196)	3,577,911	10,709,271
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ 8,440,891</b>	<b>\$ (618,742)</b>	<b>\$ 4,183,425</b>	<b>\$ 435,564</b>	<b>\$ (478,189)</b>	<b>\$ (933,846)</b>	<b>\$ 3,425,555</b>	<b>\$ 14,454,658</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 THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended April 30, 2011**

Net change in fund balances - total governmental funds \$ 3,745,387

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 depreciation expense exceeded capital outlay in the current year. (242,870)

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	\$(12,385,000)	
Payments	3,109,540	
Advance of bond proceeds to developer	5,258,633	
Change in compensated absences	28,893	
Change in net pension obligation	87,812	
Accrued interest	<u>2,350</u>	(3,897,772)

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. 298,730

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

Change in Net Assets		<u>163,785</u>
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**Change in net assets of governmental activities \$ 67,260**

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, 2011**

	<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	\$ 1,237,589	\$ 88,251	\$ 1,325,840	\$ 310,689
Restricted cash	49,153	-	49,153	-
Investments	1,530,685	3,626	1,534,311	177,259
Intergovernmental receivable	-	8,038	8,038	-
Accounts receivable (net of allowance for doubtful accounts of \$9,400 for Sewer and \$1,700 for Solid Waste)	145,978	89,738	235,716	362
Accrued interest	7,855	-	7,855	208
<b>Total current assets</b>	<b>\$ 2,971,260</b>	<b>\$ 189,653</b>	<b>\$ 3,160,913</b>	<b>\$ 488,518</b>
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	5,396,307	-	5,396,307	-
Separation work	3,801,298	-	3,801,298	-
Construction in progress	19,538	-	19,538	-
	17,895,982	-	17,895,982	-
Accumulated depreciation	8,818,696	-	8,818,696	-
<b>Total capital assets (net of accumulated depreciation)</b>	<b>9,077,286</b>	<b>-</b>	<b>9,077,286</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 12,048,546</b>	<b>\$ 189,653</b>	<b>\$ 12,238,199</b>	<b>\$ 488,518</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 20,125	\$ 75,824	\$ 95,949	\$ -
Claims payable	-	-	-	40,704
Accrued payroll	13,395	1,275	14,670	-
Deposits	-	320	320	-
Accrued vacation	32,635	5,881	38,516	-
Accrued interest	9,227	-	9,227	-
Current portion of notes payable	203,335	-	203,335	-
<b>Total current liabilities</b>	<b>\$ 278,717</b>	<b>\$ 83,300</b>	<b>\$ 362,017</b>	<b>\$ 40,704</b>
Noncurrent liabilities				
Notes payable (net of current portion)	\$ 1,407,510	\$ -	\$ 1,407,510	\$ -
<b>Total noncurrent liabilities</b>	<b>1,407,510</b>	<b>-</b>	<b>1,407,510</b>	<b>-</b>
<b>Total liabilities</b>	<b>\$ 1,686,227</b>	<b>\$ 83,300</b>	<b>\$ 1,769,527</b>	<b>\$ 40,704</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 7,466,441	\$ -	\$ 7,466,441	\$ -
Unrestricted	2,895,878	106,353	3,002,231	447,814
<b>Total net assets</b>	<b>\$ 10,362,319</b>	<b>\$ 106,353</b>	<b>\$ 10,468,672</b>	<b>\$ 447,814</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,048,546</b>	<b>\$ 189,653</b>	<b>\$ 12,238,199</b>	<b>\$ 488,518</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**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - PROPRIETARY FUND TYPES**  
**Year Ended April 30, 2011**

	<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	\$ 1,662,343	\$ -	\$ 1,662,343	\$ -
Solid waste service fees	-	789,596	789,596	-
Employer contributions	-	-	-	1,095,850
Employee contributions	-	-	-	345,115
Other revenue	3,177	93	3,270	-
Total operating revenue	<u>\$ 1,665,520</u>	<u>\$ 789,689</u>	<u>\$ 2,455,209</u>	<u>\$ 1,440,965</u>
<b>OPERATING EXPENSES</b>				
Administration	\$ -	\$ -	\$ -	\$ 200,013
Life insurance premiums	-	-	-	9,273
Waste water treatment plant	622,407	-	622,407	-
Solid waste disposal	-	901,119	901,119	-
Maintenance	9,019	-	9,019	-
Billing and collection	160,398	-	160,398	-
Non-departmental	344,351	-	344,351	-
Benefit payments	-	-	-	1,077,212
Depreciation	341,110	-	341,110	-
Total operating expenses	<u>\$ 1,477,285</u>	<u>\$ 901,119</u>	<u>\$ 2,378,404</u>	<u>\$ 1,286,498</u>
Operating income (loss)	<u>\$ 188,235</u>	<u>\$ (111,430)</u>	<u>\$ 76,805</u>	<u>\$ 154,467</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	\$ -	\$ 60,126	\$ 60,126	\$ -
Interest income	77,596	5,575	83,171	6,273
Net change in fair value of investments	(17,410)	12,836	(4,574)	3,045
Interest expense	(47,625)	-	(47,625)	-
Total nonoperating revenues (expenses)	<u>\$ 12,561</u>	<u>\$ 78,537</u>	<u>\$ 91,098</u>	<u>\$ 9,318</u>
Net income (loss) before other financing sources (uses)	<u>\$ 200,796</u>	<u>\$ (32,893)</u>	<u>\$ 167,903</u>	<u>\$ 163,785</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	\$ -	\$ 771	\$ 771	\$ -
Contributions	-	5,750	5,750	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>\$ (25,000)</u>	<u>\$ 6,521</u>	<u>\$ (18,479)</u>	<u>\$ -</u>
Net income (loss)	175,796	(26,372)	149,424	163,785
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,186,523</u>	<u>132,725</u>	<u>10,319,248</u>	<u>284,029</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 10,362,319</u>	<u>\$ 106,353</u>	<u>\$ 10,468,672</u>	<u>\$ 447,814</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, 2011**

	<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>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services provided	\$ -	\$ -	\$ -	\$ 1,440,965
Receipts from customers	1,673,508	746,796	2,420,304	-
Payments to employees	(412,850)	(42,989)	(455,839)	-
Payments to suppliers	(723,220)	(826,331)	(1,549,551)	-
Payments for premiums, claims, and related services	-	-	-	(1,211,198)
Payments from (to) other funds	4,697	(4,697)	-	-
Net cash provided by (used in) operating activities	<u>\$ 542,135</u>	<u>\$ (127,221)</u>	<u>\$ 414,914</u>	<u>\$ 229,767</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State replacement tax	\$ -	\$ 58,974	\$ 58,974	\$ -
Contributions	-	5,750	5,750	-
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash provided by (used in) non-capital financing activities	<u>\$ (25,000)</u>	<u>\$ 64,724</u>	<u>\$ 39,724</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on notes payable	\$ (197,397)	\$ -	\$ (197,397)	\$ -
Interest paid on notes payable	(48,722)	-	(48,722)	-
Capital assets acquired	(196,384)	-	(196,384)	-
Proceeds from the sale of capital assets	-	771	771	-
Net cash provided by (used in) capital financing activities	<u>\$ (442,503)</u>	<u>\$ 771</u>	<u>\$ (441,732)</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	\$ (340,000)	\$ -	\$ (340,000)	\$ -
Proceeds from the sale of investments	1,189,916	131,399	1,321,315	18,831
Interest received	59,417	18,578	77,995	9,344
Net cash provided by investing activities	<u>\$ 909,333</u>	<u>\$ 149,977</u>	<u>\$ 1,059,310</u>	<u>\$ 28,175</u>
<b>NET CHANGE IN CASH</b>	983,965	88,251	1,072,216	257,942
<b>CASH, BEGINNING OF YEAR</b>	<u>302,777</u>	<u>-</u>	<u>302,777</u>	<u>52,747</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,286,742</u>	<u>\$ 88,251</u>	<u>\$ 1,374,993</u>	<u>\$ 310,689</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 188,235	\$ (111,430)	\$ 76,805	\$ 154,467
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	341,110	-	341,110	-
Effects of changes in operating assets and liabilities				
Accounts receivable	7,988	(42,893)	(34,905)	52,094
Due from other funds	4,697	-	4,697	-
Accounts payable	(137)	31,261	31,124	-
Claims payable	-	-	-	23,206
Accrued payroll	2,231	547	2,778	-
Compensated absences	(1,989)	(9)	(1,998)	-
Due to other funds	-	(4,697)	(4,697)	-
	<u>\$ 542,135</u>	<u>\$ (127,221)</u>	<u>\$ 414,914</u>	<u>\$ 229,767</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, 2011**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ASSETS</b>		
Cash	\$ 112,727	\$ 1,185
Intergovernmental receivable	103	-
Accrued interest receivable	59,742	-
Investments, at fair value	22,294,776	-
<b>TOTAL ASSETS</b>	\$ 22,467,348	\$ 1,185
 <b>LIABILITIES</b>	 \$ -	 \$ -
 <b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	 \$ 22,467,348	 \$ 1,185

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, 2011**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 840,236	\$ -
Plan members	<u>270,047</u>	<u>-</u>
Total contributions	<u>\$ 1,110,283</u>	<u>\$ -</u>
Investment income		
Interest earned	\$ 507,836	\$ 3
Net change in fair value	<u>1,733,175</u>	<u>-</u>
Total investment income	<u>\$ 2,241,011</u>	<u>\$ 3</u>
Other revenue	<u>\$ 18,229</u>	<u>\$ -</u>
Total other revenue	<u>\$ 18,229</u>	<u>\$ -</u>
Total additions	<u>\$ 3,369,523</u>	<u>\$ 3</u>
<b>DEDUCTIONS</b>		
Administrative	\$ 132,006	\$ -
Benefits	<u>1,492,863</u>	<u>-</u>
Total deductions	<u>\$ 1,624,869</u>	<u>\$ -</u>
<b>NET INCREASE</b>	1,744,654	3
<b>NET ASSETS HELD IN TRUST, BEGINNING OF YEAR</b>	<u>20,722,694</u>	<u>1,182</u>
<b>NET ASSETS HELD IN TRUST, END OF YEAR</b>	<u>\$ 22,467,348</u>	<u>\$ 1,185</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  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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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 units. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include potential component units in the reporting entity was based upon the significance of their operational or financial relationship with the primary government.

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

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

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

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

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

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

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

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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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)**

The following fund types are used by the City:

**Governmental Funds**

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

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

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

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

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

**Proprietary Funds**

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

**Enterprise Funds**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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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, 2011

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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)**

**NWSW Redevelopment Fund** - This fund is used to account for the revenues and expenditures associated with the redevelopment of the NWSW property. Financing is provided by grants, donations, and rental income.

**Municipal Coliseum Fund** - This fund is used to account for the revenues and expenditures associated with the rental and maintenance of the Coliseum. Financing is provided by property taxes, state replacement taxes, and rental income.

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

**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.

**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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**BASIS OF ACCOUNTING (CONTINUED)**

**Accrual**

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

**Modified Accrual**

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**ESTIMATES (CONTINUED)**

revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BUDGETS**

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

The City prepares an appropriation ordinance and budget for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds. The appropriation ordinance represents the legal spending limits for the City. The budget is used to control those limits. The appropriation ordinance and budget was passed on April 19, 2010 and was amended on April 18, 2011. 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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**INVESTMENTS**

State statutes authorize the government to invest in the following:

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

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

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

**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).

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**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
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, 2010 represents installments of the 2009 property taxes which were received during 2010. The 2010

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**PROPERTY TAXES (CONTINUED)**

property tax levy has been deferred at April 30, 2011, as it was budgeted for fiscal year 2012.

**LONG-TERM OBLIGATIONS**

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

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists 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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

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

**Government-wide Statements (Continued)**

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

**Use of Restricted/Unrestricted Net Assets**

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

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

**Fund Statements**

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

**INTERFUND TRANSACTIONS**

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

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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 \$4,469,071 and the bank balances totaled \$4,707,906. Cash on hand was \$85,455.

At year end, the investment maturities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 or more</u>
Certificates of Deposit	\$1,498,608	\$ 970,746	\$ 527,862	\$ -	\$ -
Money Market	2,795,211	2,795,211	-	-	-
U.S. Treasuries	8,585,753	348,556	5,647,036	2,101,130	489,031
U.S. Agencies	7,551,836	-	6,349	60,274	7,485,213
Illinois Treasurer's Investment	2,451,042	2,451,042	-	-	-
Mutual Funds	7,504,280	7,504,280	-	-	-
Annuities	3,264,827	3,264,827	-	-	-
Stock	487,780	487,780	-	-	-
	<u>\$34,139,337</u>	<u>\$17,822,442</u>	<u>\$6,181,247</u>	<u>\$2,161,404</u>	<u>\$7,974,244</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, 2011, the City had \$2,451,042 in the Pool, which approximates fair value.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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Note 2. Deposits and Investments (Continued)

**Investments in The Illinois Funds (Continued)**

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.

**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.

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

**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, 2011, none of the City's deposits were exposed to custodial credit risk. Cash and investments are categorized in accordance with risk factors. Deposits are insured by the FDIC to \$250,000 per bank for interest bearing accounts and investments. All deposits are secured by the FDIC or by investments pledged by the bank.

**Concentration of Credit Risk**

The City places no limit on the amount the City may invest in any one issue. As of April 30, 2011, no single investment of the City was over 5.00% of the City's total investment.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2011, was as follows:

	<u>Balance at May 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2011</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 994,516	\$ 60,845	\$ -	\$ 1,055,361
Construction in progress	<u>112,713</u>	<u>314,178</u>	<u>119,485</u>	<u>307,406</u>
Total capital assets not being depreciated	<u>1,107,229</u>	<u>375,023</u>	<u>119,485</u>	<u>1,362,767</u>
Capital assets being depreciated				
Buildings	1,472,440	130,396	-	1,602,836
Equipment	4,454,719	300,281	20,961	4,734,039
Land improvements	787,920	-	-	787,920
Infrastructure	<u>22,861,759</u>	<u>269,032</u>	<u>-</u>	<u>23,130,791</u>
Total capital assets being depreciated	<u>29,576,838</u>	<u>699,709</u>	<u>20,961</u>	<u>30,255,586</u>
Less accumulated depreciation for				
Buildings	576,091	52,822	-	628,913
Equipment	2,639,323	290,466	2,445	2,927,344
Land improvements	241,920	15,863	-	257,783
Infrastructure	<u>8,540,000</u>	<u>802,699</u>	<u>-</u>	<u>9,342,699</u>
Total accumulated depreciation	<u>11,997,334</u>	<u>1,161,850</u>	<u>2,445</u>	<u>13,156,739</u>
Total capital assets being depreciated, net	<u>17,579,504</u>	<u>(462,141)</u>	<u>18,516</u>	<u>17,098,847</u>
Governmental activities capital assets, net	<u>\$18,686,733</u>	<u>\$ (87,118)</u>	<u>\$ 138,001</u>	<u>\$18,461,614</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2011</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in progress	<u>19,538</u>	<u>-</u>	<u>-</u>	<u>19,538</u>
Total capital assets not being depreciated	<u>168,136</u>	<u>-</u>	<u>-</u>	<u>168,136</u>
Capital assets being depreciated				
Buildings and equipment	6,966,801	-	-	6,966,801
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,324,923	71,384	-	5,396,307
Sewer separation work	<u>3,676,298</u>	<u>125,000</u>	<u>-</u>	<u>3,801,298</u>
Total capital assets being depreciated	<u>17,531,462</u>	<u>196,384</u>	<u>-</u>	<u>17,727,846</u>
Less accumulated depreciation:				
Buildings and equipment	3,534,320	130,336	-	3,664,656
Inceptors, mains, and pump stations	1,033,871	27,134	-	1,061,005
Storm sewers	1,688,386	108,926	-	1,797,312
Sewer separation work	<u>2,221,009</u>	<u>74,714</u>	<u>-</u>	<u>2,295,723</u>
Total accumulated depreciation	<u>8,477,586</u>	<u>341,110</u>	<u>-</u>	<u>8,818,696</u>
Total capital assets being depreciated	<u>9,053,876</u>	<u>(144,726)</u>	<u>-</u>	<u>8,909,150</u>
Business-type activities capital assets, net	<u>\$ 9,222,012</u>	<u>\$ (144,726)</u>	<u>\$ -</u>	<u>\$ 9,077,286</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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Note 3. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 115,449
Public safety	144,202
Public works and transportation	775,673
Community development	14,622
Culture and recreation	28,977
Other	<u>80,482</u>
 Total depreciation expense	 <u>\$1,159,405</u>
 Business-type activities:	
Sewer	\$341,110
Solid waste	<u>-</u>
 Total depreciation expense	 <u>\$ 341,110</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 \$60,000 per employee and \$1,396,997 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:

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 4. Risk Management (Continued)

Claims payable, April 30, 2010	\$ 17,498
Claims incurred	1,077,212
Claims paid	<u>(1,054,006)</u>
Claims payable, April 30, 2011	<u>\$ 40,704</u>

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2011 are summarized as follows:

	<u>Balance at</u> <u>May 1, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>April 30, 2011</u>	<u>Due Within</u> <u>1 Year</u>
<b>Governmental activities:</b>					
Bonds payable	\$7,408,507	\$12,385,000	\$3,084,539	\$16,708,968	\$334,392
Redevelopment agreements	278,000	-	25,000	253,000	25,000
Compensated absences	415,886	-	28,893	386,993	-
Net pension obligation	<u>15,752</u>	<u>-</u>	<u>15,752</u>	<u>-</u>	<u>-</u>
	<u>\$8,118,145</u>	<u>\$12,385,000</u>	<u>\$3,154,185</u>	<u>\$17,348,960</u>	<u>\$359,392</u>
<b>Business-type activities:</b>					
Notes payable	\$1,808,242	\$ -	\$ 197,397	\$1,610,845	\$203,335
Compensated absences	<u>40,514</u>	<u>-</u>	<u>1,998</u>	<u>38,516</u>	<u>-</u>
	<u>\$1,848,756</u>	<u>\$ -</u>	<u>\$ 199,395</u>	<u>\$1,649,361</u>	<u>\$203,335</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:

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2012	\$ 130,000	\$ 31,298
2013	140,000	26,943
2014	140,000	22,253
2015	150,000	17,212
2016	155,000	11,812
2017	<u>160,000</u>	<u>6,000</u>
Total	<b><u>\$ 875,000</u></b>	<b><u>\$115,518</u></b>

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.

During the current fiscal year, the City had a current refunding of its \$3,885,000 General Obligation Bonds (Alternate Revenue Source) dated May 1, 2001 by issuing \$1,270,000 in General Obligation Refunding Bonds dated July 1, 2010 at a lower interest rate. The difference between the cash flows to service the old debt and the new debt are as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Difference in</u></b> <b><u>Cash Flows</u></b>
2012	\$ 6,508
2013	4,150
2014	<u>5,020</u>
Total	<b><u>\$ 15,678</u></b>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

This refunding was undertaken to reduce total debt service payments over the next three years by \$15,678 (as shown above) and to obtain economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$24,546 .

\$1,270,000 General Obligation Refunding Bonds (Alternate Revenue Source) dated July 1, 2010 due in annual installments of \$425,000 to \$445,000 due on May 1 of each year with interest at 2.00% due May 1 and November 1 each year through May 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>		
2012	\$ -	\$ 8,700
2013	425,000	13,150
2014	<u>445,000</u>	<u>4,450</u>
Total	<u>\$ 870,000</u>	<u>\$ 26,300</u>

Ordinance 2010-06-17 was passed by the City Council for issuance of Series 2010B General Obligation Bonds (Sales Tax/Tax Increment Alternate Revenue Source) in an amount of \$1,270,000. 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, 2011

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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>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>		
2012	\$ 25,500	\$ 6,932
2013	25,500	5,510
2014	25,500	4,088
2015	25,500	2,666
2016	<u>25,500</u>	<u>1,244</u>
 Total	 <u>\$127,500</u>	 <u>\$20,440</u>

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

<b><u>Year Ended</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
<b><u>April 30</u></b>		
2012	\$ 23,892	\$ 14,188
2013	25,325	12,755
2014	26,845	11,235
2015	28,456	9,624
2016	30,163	7,917
2017 - 2019	<u>101,788</u>	<u>12,452</u>
 Total	 <u>\$ 236,469</u>	 <u>\$ 68,171</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.

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.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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>
2012	\$ 155,000	\$ 139,650
2013	180,000	133,760
2014	205,000	126,920
2015	230,000	119,130
2016	255,000	110,390
2017 - 2021	1,715,000	385,510
2022 - 2023	<u>935,000</u>	<u>54,150</u>
Total	<b><u>\$3,675,000</u></b>	<b><u>\$1,069,510</u></b>

During the current fiscal year, the City had a current refunding of its \$1,800,000 General Obligation Bonds (Alternate Revenue Source) dated July 5, 2005 by issuing \$995,000 in General Obligation Refunding Bonds dated July 1, 2010 at a lower interest rate. The difference between the cash flows to service the old debt and the new debt are as follows:

<b><u>Year Ended</u></b> <b><u>April 30</u></b>	<b><u>Difference in</u></b> <b><u>Cash Flows</u></b>
2012	\$ 7,563
2013	1,050
2014	3,105
2015	4,695
2016	<u>1,995</u>
Total	<b><u>\$ 18,408</u></b>

This refunding was undertaken to reduce total debt service payments over the next five years by \$18,408 (as shown above) and to obtain economic gain (difference between

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

the present value of the debt service payments of the refunded and refunding bonds) of \$20,505.

\$995,000 General Obligation Refunding Bonds (Alternate Revenue Source) dated July 1, 2010 due in annual installments of \$195,000 to \$210,000 due on May 1 of each year with interest at 2.00% to 3.00% due May 1 and November 1 each year through May 1, 2015. 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>		
2012	\$ -	\$ 9,600
2013	195,000	17,250
2014	200,000	13,300
2015	200,000	8,800
2016	<u>210,000</u>	<u>3,150</u>
Total	<u>\$ 805,000</u>	<u>\$ 52,100</u>

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

During the fiscal year ended April 30, 2011, the City issued \$6,200,000 of General Obligation Bonds (Alternate Revenue Source), Series 2010A for the Lincolnway-Lynn Tax Increment Financing Project. These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on May 1 each year with interest is at 2.50% to 5.25% due May 1 and November 1 each year through May 1, 2031.

CITY OF STERLING, ILLINOIS  
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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>
2012	\$ -	\$ 136,394
2013	60,000	272,037
2014	185,000	268,975
2015	195,000	264,225
2016	200,000	258,934
2017 – 2021	1,180,000	1,185,502
2022 – 2026	1,615,000	898,043
2027 – 2031	2,230,000	427,351
2032	<u>455,000</u>	<u>11,944</u>
Total	<u>\$ 6,120,000</u>	<u>\$3,723,405</u>

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

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

CITY OF STERLING, ILLINOIS  
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 April 30, 2011

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>Net</u></b> <b><u>Interest</u></b>
2012	\$ -	\$ 159,180
2013	-	147,900
2014	-	147,900
2015	90,000	147,900
2016	100,000	146,019
2017 – 2021	665,000	684,505
2022 – 2026	880,000	563,948
2027 – 2031	1,135,000	374,743
2032 - 2035	<u>1,130,000</u>	<u>119,007</u>
Total	<u>\$ 4,000,000</u>	<u>\$2,491,102</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, 2011, 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, 2011, the balance is \$185,000.

**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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Compensated Absences (Continued)**

government-wide presentations. Compensated absences at April 30, 2011 are as follows:

Governmental activities	<u>\$ 386,993</u>
Business-type activities	<u>\$ 38,516</u>

**Net Pension Obligations (Assets)**

At April 30, 2011, the City had the following net pension obligations:

Police pension (asset)	\$ (133,187)
Fire pension	<u>61,127</u>
Total	<u>\$ (72,060)</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, 2011, the balance is \$49,024.

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, 2011, the balance is \$893,668.

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, 2011, the balance is \$668,153.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 5. Long-Term Debt (Continued)

**Business-Type Activities (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>
2012	\$ 49,024	\$ 1,324	\$ 116,944	\$ 24,988
2013	-	-	120,349	21,584
2014	-	-	123,852	18,081
2015	-	-	127,457	14,476
2016	-	-	131,167	10,766
2017 - 2018	<u>-</u>	<u>-</u>	<u>273,899</u>	<u>9,965</u>
Total	<u>\$ 49,024</u>	<u>\$ 1,324</u>	<u>\$893,668</u>	<u>\$ 99,860</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>
2012	\$ 37,367	\$ 16,472
2013	38,307	15,532
2014	39,271	14,568
2015	40,259	13,580
2016	41,272	12,567
2017 - 2021	222,465	46,731
2022 - 2026	<u>249,212</u>	<u>17,305</u>
Total	<u>\$668,153</u>	<u>\$136,755</u>

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2011:

Assessed valuation - 2010	<u>\$177,136,623</u>
Statutory debt limitation (8.625% of assessed limitation)	<u>\$ 15,278,034</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 6. Legal Debt Margin (Continued)

Total debt:			
Alternate revenue source bonds	\$12,670,000		
Tax increment revenue bonds	3,675,000		
Special service area bonds	363,968		
EPA loans payable	<u>1,610,845</u>	18,319,813	
Less:			
Alternate revenue source bonds	12,670,000		
Tax increment revenue bonds	3,675,000		
Special service area bonds	363,968		
EPA loans payable	<u>1,610,845</u>	<u>18,319,813</u>	
Total amount of debt applicable to debt limit		<u>                    -</u>	
Legal debt margin		<u><u>\$ 15,278,034</u></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, 2011, \$11,525,000 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, 2011, \$8,065,000 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, 2011, \$4,215,000 of this debt was outstanding.

During the fiscal year ended April 30, 2000, the City issued \$220,000 of taxable revenue bonds for Hoosier Care, Inc.. These bonds are not a liability of the City and are paid by Hoosier Care, Inc.. At April 30, 2011, \$145,000 of this debt was outstanding.

During the fiscal year ended April 30, 2011, the City issued \$9,900,000 of hospital revenue 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, 2011, \$9,900,000 of this debt was outstanding.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

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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 calendar year 2010 was 10.67%. 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.

The required contribution for calendar year 2010 was \$268,877.

**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, 2010	\$ 268,877	100%	\$ -
December 31, 2009	40,473	100	-
December 31, 2008	50,805	100	-

The required contribution for 2010 was determined as part of the December 31, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2008, included (a) 7.5% 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 10% per year depending on age and service, attributable to seniority/merit, and

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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Note 8. Employee Retirement Systems (Continued)

**Illinois Municipal Retirement (Continued)**

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 at December 31, 2010 is being amortized as a level percentage of projected payroll on an open 30 year basis.

As of December 31, 2010, the most recent actuarial valuation date, the Regular plan was 88.64% funded. The actuarial accrued liability for benefits was \$9,243,955 and the actuarial value of assets was \$8,193,954, resulting in an underfunded actuarial accrued liability (UAAL) of \$1,050,001. The covered payroll for calendar year 2010 (annual payroll of active employees covered by the plan) was \$2,519,937 and the ratio of the UAAL to the covered payroll was 42%.

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.

**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, 2011, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	22
Current employees:	
Vested	18
Nonvested	<u>12</u>
 Total	 <u>52</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

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

**Police Pension (Continued)**

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 21.89% 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.

**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	24
Current employees:	
Vested	17
Nonvested	<u>6</u>
Total	<u>47</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

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Note 8. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

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, 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 27.59% 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.

**Funding Policy and Annual Pension Cost**

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

	<b><u>Police Pension Plan</u></b>	<b><u>Firefighters' Pension Plan</u></b>
Annual required contribution	\$ 371,860	\$ 380,189
Interest on net pension obligation	(5,824)	7,045
Adjustment to annual required contribution	<u>4,029</u>	<u>(4,874)</u>
Annual pension cost	370,065	382,360
Contributions made	<u>(428,103)</u>	<u>(412,134)</u>
Change in net pension obligation (asset)	(58,038)	(29,774)
Net pension asset, beginning of year	<u>(75,149)</u>	<u>90,901</u>
Net pension obligation (asset), end of year	<u>\$(133,187)</u>	<u>\$ 61,127</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 8. Employee Retirement Systems (Continued)

**Funding Policy and Annual Pension Cost (Continued)**

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

Actuarial valuation date	May 1, 2010
Actuarial cost method	Entry Age Normal Cost
Actuarial value of assets	5-year Smoothed Market
Amortization method	Level Percentage of Payroll Closed
Remaining amortization period	27 Years, 0 Months
Actuarial assumptions:	
Investment rate of return	7.75%
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
Payroll growth	4.50%
Inflation factor	2.50%
Cost of living increases	3.00%
Assumed mortality	RP-2000 Combined Healthy Mortality Table (male) with blue collar adjustment and with a 200% load for participants under age 50 and 125% for participants age 50 and older

**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>			
04/30/11	\$370,065	115.68%	\$(133,187)
04/30/10	355,397	91.18	(75,149)
04/30/09	290,597	96.43	(106,496)
<u>Firefighters' Pension Fund</u>			
04/30/11	\$382,360	107.84%	\$ 61,127
04/30/10	364,478	70.14	90,901
04/30/09	228,623	105.04	(18,325)

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 9. Other Postemployment Benefits

The City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective May 1, 2009. This statement requires the costs of postemployment benefits other than pension benefits to be recognized over a period that approximates an employee's years of service. Implementation of this statement resulted in recording a liability of \$1,554,268 as of April 30, 2010. Additional disclosures required by this statement are included below.

**Plan Description**

In addition to providing the pension benefits described in Note 8, the City provides postemployment health care benefits (OPEB) for retired employees through a single-employer health care plan that provides medical, prescription drug, and dental benefits to all active and retired employees and their eligible dependents. Retiree coverage begins at IMRF retirement age of at least 55 and continues until the retiree is medicare eligible.

The benefits, benefit levels, employee contributions, and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone

financial report. The activity of the plan is reported in the City's governmental and business-type activities.

**Membership**

Membership in the OPEB comprised the following at May 1, 2009:

Retirees and beneficiaries currently receiving benefits	33
Terminated employees entitled to benefits but not yet receiving them	-
Active employees	<u>107</u>
Total	<u>140</u>
 Participating employers	 <u>1</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
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Note 9. Other Postemployment Benefits (Continued)

**Funding Policy**

The City is not required to and currently does not advance fund the cost of benefits that will become due and payable in the future. Active employees do not contribute to the plan until retirement. Retirees contribute 100% of the retiree and/or spouse rate.

**Annual OPEB Costs and Net OPEB Obligations**

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

The annual OPEB cost is the amount the City charges as the cost of the postemployment health care benefits each fiscal year. If there is no net OPEB obligation, then the annual OPEB cost is equal to the ARC. However, if there is a net OPEB obligation, the annual OPEB cost reflects adjustment for interest on the net OPEB obligation. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended April 30, 2010 was as follows:

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Employer Contributions</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
April 30, 2010	\$ 1,890,730	\$336,462	18%	\$ 1,554,268

The net OPEB obligation as of April 30, 2010 was calculated as follows:

Annual required contribution	\$ 1,890,730
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,890,730
Contributions made	<u>(336,462)</u>
Change in net OPEB obligation	1,554,268
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 1,554,268</u>

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 NOTES TO FINANCIAL STATEMENTS  
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Note 9. Other Postemployment Benefits (Continued)

**Annual OPEB Costs and Net OPEB Obligations (Continued)**

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

Funded Status and Funding Progress. The funded status of the plan as of April 30, 2010 was as follows:

Actuarial accrued liability (AAL)	\$ 15,977,406
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	15,977,406
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 5,609,260
UAAL as a percentage of covered payroll	284.84%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial accrued liability is amortized as a level dollar amount over thirty years, resulting in an amortization of \$815,155 for the twelve-month period.

In the April 30, 2010 actuarial valuation, the projected unit credit method was used.

Discount Rate. The discount rate as of April 30, 2010 is 3.00%. The discount rate is determined by the plan sponsor based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

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Note 9. Other Postemployment Benefits (Continued)

**Annual OPEB Costs and Net OPEB Obligations (Continued)**

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the projected unit credit cost method. Under this method, the present value of projected benefits is estimated at each decrement age, taking into account the value of future increases in medical claims. The total present value of projected benefits is the sum of the present values for each decrement age.

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

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

The actuarial value of assets was not determined as the City has not advance funded its obligation.

Note 10. Interfund Balances

**Operating Transfers**

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 25,000	\$ -
CBD Tax Increment Allocation Fund	-	16,000
Municipal Coliseum Fund	-	325,000
	<u>25,000</u>	<u>341,000</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	-
Sewer Fund:		
General Fund	<u>-</u>	<u>25,000</u>
Municipal Coliseum Fund:		
General Fund	325,000	-
Nonmajor Governmental	<u>14,359</u>	-
	<u>339,359</u>	-
Nonmajor Governmental:		
Municipal Coliseum Fund	<u>-</u>	<u>14,359</u>
Total operating transfers	<u>\$380,359</u>	<u>\$380,359</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

Note 10. Interfund Balances (Continued)

**Operating Transfers (Continued)**

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purposes of interfund operating transfers existing at April 30, 2011 were as follows:

The Sewer Fund transfers \$25,000 annually to the General Fund for reimbursement of studies and plan commission services related to the sewer system.

The General Fund transfers \$16,000 annually to the CBD Tax Increment Allocation Fund to compensate for a business that moved out of the CBD TIF district into a different part of the City several years ago.

The General Fund transferred \$325,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum.

A nonmajor governmental fund transferred \$14,359 to the Municipal Coliseum Fund when the nonmajor fund was closed.

**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	\$ -
Lincolnway-Lynn Tax Increment Allocation Fund	121,942	-
Nonmajor Governmental	<u>146,298</u>	<u>-</u>
	<u>718,240</u>	<u>-</u>
NWSW Redevelopment Fund:		
Municipal Coliseum Fund	<u>-</u>	<u>523,129</u>
Municipal Coliseum Fund:		
NWSW Redevelopment Fund	523,129	-
Rock River Tax Increment Allocation Fund	<u>2,273,735</u>	<u>-</u>
	<u>2,796,864</u>	<u>-</u>
Lincolnway-Lynn Tax Increment Allocation Fund:		
General Fund	<u>-</u>	<u>121,942</u>

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

Note 10. Interfund Balances (Continued)

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

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
CBD Tax Increment Allocation Fund:		
General Fund	-	450,000
Nonmajor Governmental	-	402,500
	-	852,500
Rock River Tax Increment Allocation Fund:		
Municipal Coliseum Fund	-	2,273,735
Nonmajor Governmental:		
General Fund	-	146,298
CBD Tax Increment Allocation Fund	402,500	-
	834,381	195,949
	402,500	146,298
Total due from/due to other funds	<u>\$3,917,604</u>	<u>\$3,917,604</u>

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

Other interfund loans existing at April 30, 2011, and their purpose were as follows:

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

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

Note 11. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2011:

	<u>Expenditures</u>	<u>Budget</u>
NWSW Redevelopment Fund	\$2,317,690	\$2,235,658
Lincolnway-Lynn Tax Increment Allocation Fund	561,580	378,002
CBD Tax Increment Allocation Fund	490,517	462,869
Rock River Tax Increment Allocation Fund	485,826	393,003
Motor Fuel Tax Fund	500,471	484,914

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

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Note 11. Other Individual Fund Disclosures (Continued)

	<u>Expenditures</u>	<u>Budget</u>
IMRF Fund	271,603	271,015
NSP2 Grant Fund	238,284	195,359
Lynn Boulevard Project Fund	237,529	222,073
Policemen's Pension Fund	849,345	827,485
Firemen's Pension Fund	775,524	761,177

The following funds had deficit fund balances or deficit retained earnings at April 30, 2011:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$933,846
CBD Tax Increment Allocation Fund	478,189

Note 12. Component Unit - CGH Medical Center

The following is a summary of certain accounting policies and note disclosures for the CGH Medical Center. Complete financial statements and note disclosures are available in the separately issued CGH Medical Center annual report for the fiscal year ended April 30, 2011.

**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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Accounts Receivable and Credit Policies (Continued)**

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 in Federal and State governmental and private employer health care coverage and trends with final adjustments made when cost reports are filed, if applicable. 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.

**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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Investments and Investment Income (Continued)**

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**

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 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.

**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". Within unrestricted, the Medical Center has designated specific funds, which are deposited in specific accounts for capital repairs and replacements.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Risk Management**

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

**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	30%
Medicaid	15
Blue Cross	10
Other third-party payors	27
Patients	<u>18</u>
Total	<u>100%</u>

**Classification of Revenues and Expenses**

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

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

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 and contributions.

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

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Net Patient Service Revenue**

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

Net patient service revenue is reported at the estimated net realizable amounts 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 \$3,572,793 of the claimed excess in Net Patient Service Revenue for the year ended April 30, 2011. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to independent review by a peer review organization. The Medical Center's Medicare cost reports have been final settled by the Medicare fiscal intermediary through April 30, 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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Net Patient Service Revenue (Continued)**

**Blue Cross**

Services rendered to Blue Cross subscribers are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by Blue Cross. The Medical Center's Blue Cross cost reports have been audited through April 30, 2010.

**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 49% and 15%, respectively, of the Medical Center's gross patient service revenue for the year ended April 30, 2011. 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.

The Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program). Under the Program, the Medical Center received additional Medicaid reimbursement from the State. The Program has been extended through June 30, 2013. Cash payments of \$5,138,505 were received and were included in net patient revenue for the year ended April 30, 2011. In relation to this program, the Medical Center has recorded a deferred revenue of \$734,072 at April 30, 2011.

**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**

The Sterling-Rock Falls Clinic, Ltd., Rock River Health, Inc. and CGH Health Foundation, Inc., are blended component units of CGH Medical Center. These

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Component Units (Continued)**

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.

The Sterling-Rock Falls Clinic, Ltd. is a for-profit blended component unit of CGH Medical Center. Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be recognized.

**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. Contributed assets are recorded at their estimated fair value at the time of their donation. Other costs incurred for repairs and maintenance are expensed as incurred.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Capital Assets (Continued)**

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

**Unconsolidated Investees**

The Medical Center has equity in two joint ventures. The net equity accounts are adjusted for the Medical Center's proportionate share of the undistributed earnings or losses. At April 30, 2011, the net equity in unconsolidated investees is \$5,035,885.

**Deposits and Investments**

The carrying amount of the Medical Center's cash and deposits was \$17,405,427 and the bank balances totaled \$18,226,835. Cash on hand was \$5,585.

As of April 30, 2011, 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	\$8,139,478	\$ 5,561,805	\$ 2,577,673	\$ -	\$ -
Mutual Funds	9,209,493	9,209,493	-	-	-
Federated Govt.	267,317	267,317	-	-	-
FNMA	1,970,732	400,628	1,508,768	20,509	40,827
U.S. Treasuries	2,275,243	2,275,243	-	-	-
FHLB	773,208	454,145	319,063	-	-
GNMA	413,486	-	-	-	413,486
FHLMC	3,800,388	-	3,681,659	118,729	-
FFCB	527,410	-	527,410	-	-
Municipal Bonds	<u>6,785,053</u>	<u>308,505</u>	<u>6,476,548</u>	<u>-</u>	<u>-</u>
	<u>\$34,161,808</u>	<u>\$18,477,136</u>	<u>\$15,091,121</u>	<u>\$ 139,238</u>	<u>\$ 454,313</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.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Credit Risk**

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

**Custodial Credit Risk - Deposits**

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

**Revenue Bonds Payable**

At April 30, 2011, 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.

2011 City of Sterling Hospital Revenue Bonds, dated April 18, 2011, due in monthly principal and interest installments totaling \$102,054 through 2021, bearing interest at a rate of 4.32%.

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Revenue Bonds Payable (Continued)**

Transactions for the year ended April 30, 2011, are summarized as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>May 1, 2010</b>	<b>Issued</b>	<b>Retired</b>	<b>April 30, 2011</b>
2003 Municipal Program Revenue Bonds	\$ 8,580,000	\$ -	\$ 515,000	\$ 8,065,000
2006 Municipal Program Revenue Bonds	12,240,000	-	715,000	11,525,000
2011 City of Sterling Hospital Revenue Bonds	-	9,900,000	-	9,900,000
Unamortized bond discount	<u>378,509</u>	<u>-</u>	<u>28,678</u>	<u>349,831</u>
<b>Total revenue bonds payable</b>	<b><u>\$20,441,491</u></b>	<b><u>\$ 9,900,000</u></b>	<b><u>\$1,201,322</u></b>	<b><u>\$29,140,169</u></b>

For the Series 2003 and 2006 revenue bonds, 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, 2011 were paid by April 30, 2011. Annual requirements to retire debt obligations are as follows:

<b>Year Ending</b>			
<b><u>April 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2012	\$ 805,918	\$1,308,102	\$ 2,114,020
2013	2,118,047	1,220,223	3,338,270
2014	2,210,723	1,127,740	3,338,463
2015	2,305,083	1,030,497	3,335,580
2016	2,405,520	927,704	3,333,224
2017 - 2021	13,734,709	2,898,990	16,633,699
2022 - 2024	<u>5,910,000</u>	<u>427,339</u>	<u>6,337,339</u>
Total	<b><u>\$29,490,000</u></b>	<b><u>\$8,940,595</u></b>	<b><u>\$38,430,595</u></b>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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

**Capital Assets**

Capital asset activity for the year ended April 30, 2011 was as follows:

	<u>Balance at May 1, 2010</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2011</u>
<b>Medical Center</b>				
Land	\$ 2,395,138	\$ 155,364	\$ -	\$ 2,550,502
Land improvements	1,731,943	269,978	-	2,001,921
Buildings	53,381,431	3,284,397	54,009	56,611,819
Rented buildings	21,171,262	2,310,262	-	23,481,524
Building service equipment	9,438,885	-	65,539	9,373,346
Moveable equipment	52,814,521	11,012,249	780,000	63,046,770
Construction in progress	<u>514,647</u>	<u>5,616,196</u>	<u>4,984,642</u>	<u>1,146,201</u>
Total cost	<u>\$141,447,827</u>	<u>\$22,648,446</u>	<u>\$ 5,884,190</u>	<u>\$158,212,083</u>
	<u>Balance at May 1, 2010</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2011</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,310,360	\$ 88,835	\$ -	\$ 1,399,195
Buildings	23,876,623	2,491,361	28,982	26,339,002
Rented buildings	7,323,899	1,005,684	-	8,329,583
Building service equipment	8,776,721	167,532	65,538	8,868,715
Moveable equipment	<u>33,423,560</u>	<u>6,553,847</u>	<u>777,559</u>	<u>39,199,848</u>
Total accumulated depreciation	<u>\$ 74,701,163</u>	<u>\$10,307,259</u>	<u>\$ 872,079</u>	<u>\$ 84,136,343</u>
<b>Total Medical Center capital assets, net</b>	<u>\$ 66,746,664</u>	<u>\$12,341,187</u>	<u>\$ 5,012,111</u>	<u>\$ 74,075,740</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 \$275,000 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, 2011 to be approximately \$1,252,581, 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

CITY OF STERLING, ILLINOIS  
 NOTES TO FINANCIAL STATEMENTS  
 April 30, 2011

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

**Malpractice Insurance (Continued)**

(IPT). A claims-made policy covers the Medical Center for only those claims reported to IPT within reporting periods as defined in the policy. The estimated liability accrued for unpaid losses and incurred but not reported claims at year-end was \$287,500. IPT is a risk pooling arrangement among tax-exempt, not-for-profit entities designed to protect against the risk of financial loss due to the imposition of legal liability, which was established under the Illinois Religious and Charitable Risk Pooling Trust Act. Funding is based on actuarially determined funding requirements. The provision for insurance is based on the Medical Center's experience and future premiums can be adjusted for favorable or unfavorable retrospective experience.

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

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

Note 13. Prior Period Adjustments

During the year ended April 30, 2010, the City paid an invoice out of the wrong fund. An adjustment was made to reduce the fund balance of the General Fund. The other fund affected by this error had an offsetting adjustment to accounts receivable, which resulted in no change of its fund balance.

Also, an adjustment was made to record prior year deferred revenue of licenses and permits that had not been made in the past.

These adjustments had the following effect on beginning net fund balance.

	<b><u>General Fund</u></b>
Beginning fund balance, as previously stated	\$7,992,741
Correction of errors	<u>19,679</u>
Beginning fund balance, as restated	<u>\$8,012,420</u>

CITY OF STERLING, ILLINOIS  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2011

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Note 14. Reserved Fund Balance for Capital Projects

As of April 30, 2011, the Municipal Coliseum Fund is showing a reserved fund balance of \$4,000,000 for the Municipal Coliseum Remodel Project. Bonds in the amount of \$4,000,000 were issued during fiscal year 2011 for this project, which is expected to begin in fiscal year 2012.

The City also has a reserved balance for \$402,500 in the infrastructure fund that relates to an amount due from the TIF fund for funds invested in infrastructure improvements to help develop land for development.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF FUNDING PROGRESS**  
**April 30, 2011**

<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>						
4/30/11	\$ 11,682,418	\$ 15,310,099	\$ 3,627,681	76.31%	\$ 1,573,867	230.49%
4/30/10	11,113,057	14,499,049	3,385,992	76.65%	1,616,491	209.47%
4/30/09	11,967,931	13,519,812	1,551,881	88.52%	1,610,367	96.37%
<b><u>Firemen Pension Fund</u></b>						
4/30/11	\$ 11,418,452	\$ 14,998,010	\$ 3,579,558	76.13%	\$ 1,210,312	295.75%
4/30/10	11,047,973	14,379,011	3,331,038	76.83%	1,318,492	252.64%
4/30/09	12,102,168	12,965,609	863,441	93.34%	1,250,120	69.07%
<b><u>IMRF</u></b>						
12/31/10	\$ 8,193,954	\$ 9,243,955	\$ 1,050,001	88.64%	\$ 2,519,937	41.67%
12/31/09	8,360,888	9,747,751	1,386,863	85.77%	2,680,309	51.74%
12/31/08	8,254,157	9,102,244	848,087	90.68%	2,490,445	34.05%
On a market value basis, the actuarial value of assets for IMRF as of December 31, 2010 is \$8,959,966. On a market basis, the funded ratio would be 96.93%.						
<b><u>Other Postemployment Benefits</u></b>						
4/30/10	\$ -	\$ 15,977,406	\$ 15,977,406	0.00%	\$ 5,609,260	284.84%

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2011**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Property taxes:				
Corporate	\$ 395,476	\$ 398,540	\$ 398,540	\$ -
Fire protection	237,285	239,222	239,222	-
Police protection	237,285	239,222	239,222	-
Liability insurance	257,500	257,122	257,122	-
Workers' compensation	87,500	87,395	87,395	-
Road and bridge	111,204	124,286	124,286	-
Police pension	406,277	405,403	405,403	-
Fire pension	384,145	383,234	383,234	-
Total property taxes	<u>2,116,672</u>	<u>2,134,424</u>	<u>2,134,424</u>	<u>-</u>
Sales tax	<u>4,200,408</u>	<u>4,387,000</u>	<u>4,537,572</u>	<u>150,572</u>
Intergovernmental revenue:				
State income tax	1,012,659	1,227,439	1,206,928	(20,511)
State replacement tax	277,961	300,000	336,363	36,363
Township replacement tax	17,005	17,000	21,006	4,006
Mini-Grant Alcohol Program Grant	7,439	7,660	7,660	-
Blackhawk Area Task Force	51,000	69,579	67,220	(2,359)
Sustained Traffic Enforcement Grant	-	-	7,499	7,499
Speed Feedback Trailer Grant	-	-	8,948	8,948
Tobacco Grant	2,000	1,980	1,703	(277)
Bulletproof Vest Grant	-	1,094	2,885	1,791
JAG Law Enforcement Equipment Grant	17,806	45,000	38,552	(6,448)
Other grants	-	500	2,143	1,643
Fire protection revenue	196,693	196,000	201,503	5,503
Total intergovernmental revenue	<u>1,582,563</u>	<u>1,866,252</u>	<u>1,902,410</u>	<u>36,158</u>
Licenses and permits:				
Franchise licenses	585,873	531,000	576,037	45,037
Liquor licenses	59,650	65,000	69,554	4,554
Building permits	50,000	65,000	69,590	4,590
Other	62,950	58,775	53,561	(5,214)
Total licenses and permits	<u>758,473</u>	<u>719,775</u>	<u>768,742</u>	<u>48,967</u>
Fines and penalties	<u>188,851</u>	<u>190,300</u>	<u>208,043</u>	<u>17,743</u>
Charges for services	<u>67,913</u>	<u>66,800</u>	<u>64,569</u>	<u>(2,231)</u>
Investment income:				
Interest income	231,332	207,550	130,151	(77,399)
Net change in fair market value	-	-	59,758	59,758
Total investment income	<u>231,332</u>	<u>207,550</u>	<u>189,909</u>	<u>(17,641)</u>
Donations	<u>197,900</u>	<u>178,930</u>	<u>137,500</u>	<u>(41,430)</u>
Other	<u>460,334</u>	<u>347,340</u>	<u>353,397</u>	<u>6,057</u>
Total revenues	<u>\$ 9,804,446</u>	<u>\$10,098,371</u>	<u>10,296,566</u>	<u>\$ 198,195</u>

(continued)

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2011**

	<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	\$ 30,520	\$ 30,004	\$ 30,377	\$ (373)
Office of City Clerk	119,632	113,295	113,536	(241)
Policy and Administration	264,228	259,873	258,628	1,245
Total general government	<u>414,380</u>	<u>403,172</u>	<u>402,541</u>	<u>631</u>
Public safety:				
Police Department				
Police Services Division	1,380,185	1,357,943	1,369,062	(11,119)
Administrative Services Division	308,063	311,852	309,729	2,123
Investigative Division	271,487	272,892	263,819	9,073
Support Services Division	597,827	593,377	582,187	11,190
Blackhawk Area Task Force Grant	51,000	69,579	67,220	2,359
Fire Department				
Fire Services Division	1,154,091	1,280,176	1,267,505	12,671
Administrative Services Division	121,065	164,541	164,797	(256)
Fire Prevention and Training Division	40,855	41,893	45,439	(3,546)
Total public safety	<u>3,924,573</u>	<u>4,092,253</u>	<u>4,069,758</u>	<u>22,495</u>
Public works and transportation:				
Administrative Division	127,514	110,941	106,482	4,459
Street Division	1,642,343	1,621,677	1,571,361	50,316
Traffic Division	45,490	53,843	52,862	981
Stormwater Division	5,000	5,000	2,820	2,180
City Shop	43,761	42,344	41,869	475
City Parks	72,510	68,338	59,087	9,251
Total public works and transportation	<u>1,936,618</u>	<u>1,902,143</u>	<u>1,834,481</u>	<u>67,662</u>
Community development:				
Office of Community Development	<u>327,812</u>	<u>306,549</u>	<u>289,552</u>	<u>16,997</u>
Other				
Contribution to police pension plan	406,277	405,403	405,403	-
Contribution to fire pension plan	384,145	383,284	383,234	50
Sterling Planning Commission	50,285	50,015	45,966	4,049
Police and Fire Commission	10,365	14,513	13,146	1,367
Non-departmental	1,749,986	1,663,185	1,646,491	16,694
Total other	<u>2,601,058</u>	<u>2,516,400</u>	<u>2,494,240</u>	<u>22,160</u>
Capital outlay	<u>560,530</u>	<u>541,400</u>	<u>465,337</u>	<u>76,063</u>
Total expenditures	<u>\$ 9,764,971</u>	<u>\$ 9,761,917</u>	<u>9,555,909</u>	<u>\$ 206,008</u>
Excess of revenues over expenditures		<u>336,454</u>	<u>740,657</u>	<u>(7,813)</u>

(continued)

**CITY OF STERLING, ILLINOIS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2011**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	\$ 1,525	\$ 2,984	\$ 3,814	\$ 830
Operating transfers in	25,000	25,000	25,000	-
Operating transfers out	<u>(66,000)</u>	<u>(341,000)</u>	<u>(341,000)</u>	<u>-</u>
	<u>\$ (39,475)</u>	<u>\$ (313,016)</u>	<u>(312,186)</u>	<u>\$ 830</u>
 Excess of revenues and other financing sources over expenditures and other financing uses		<u>23,438</u>	428,471	<u>(6,983)</u>
 <b>FUND BALANCE, BEGINNING OF YEAR, AS RESTATED</b>			<u>8,012,420</u>	
 <b>FUND BALANCE, END OF YEAR</b>			<u>\$ 8,440,891</u>	

**CITY OF STERLING, ILLINOIS**  
**NWSW REDEVELOPMENT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>favorable</b> <b>(unfavorable)</b>
<b>REVENUES</b>				
Intergovernmental				
Federal grant	\$ -	\$ 1,045,000	\$ 1,000,000	\$ (45,000)
Charges for services	-	67,500	64,000	(3,500)
Interest	13,347	1,300	1,005	(295)
Net change in fair value of investments	-	2,944	2,943	(1)
Donations	-	125,000	116,760	(8,240)
	<u>-</u>	<u>125,000</u>	<u>116,760</u>	<u>(8,240)</u>
Total revenues	<u>\$ 13,347</u>	<u>\$ 1,241,744</u>	<u>1,184,708</u>	<u>\$ (57,036)</u>
<b>EXPENDITURES</b>				
Community development				
Other professional services	\$ 497,300	\$ 2,135,000	2,206,505	\$ (71,505)
Real estate taxes	-	-	24,106	(24,106)
Maintenance	-	-	10,723	(10,723)
Miscellaneous	-	100,658	4,253	96,405
Capital outlay	-	-	72,103	(72,103)
	<u>-</u>	<u>-</u>	<u>72,103</u>	<u>(72,103)</u>
Total expenditures	<u>\$ 497,300</u>	<u>\$ 2,235,658</u>	<u>2,317,690</u>	<u>\$ (82,032)</u>
Deficiency of revenues over expenditures		<u>(993,914)</u>	<u>(1,132,982)</u>	<u>24,996</u>
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses		<u>(993,914)</u>	<u>(1,132,982)</u>	<u>24,996</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>514,240</u>	
<b>FUND (DEFICIT), END OF YEAR</b>			<u>\$ (618,742)</u>	

**CITY OF STERLING, ILLINOIS  
MUNICIPAL COLISEUM FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 78,175	\$ 79,742	\$ 79,742	\$ -
Intergovernmental				
State replacement tax	13,506	12,246	14,647	2,401
Charges for services	23,014	22,800	23,704	904
Interest	<u>223</u>	<u>599</u>	<u>3,067</u>	<u>2,468</u>
Total revenues	<u>\$ 114,918</u>	<u>\$ 115,387</u>	<u>121,160</u>	<u>\$ 5,773</u>
<b>EXPENDITURES</b>				
General government				
Salaries	\$ 55,892	\$ 62,598	61,503	\$ 1,095
Health insurance	15,750	15,750	15,750	-
Worker's compensation	6,250	7,307	7,307	-
Maintenance	24,750	16,792	17,799	(1,007)
Bond issuance expense	-	130,427	130,427	-
General utilities	7,500	8,500	10,750	(2,250)
General insurance	26,363	25,446	25,446	-
Miscellaneous	8,553	8,705	9,621	(916)
Capital outlay	<u>60,250</u>	<u>80,000</u>	<u>42,334</u>	<u>37,666</u>
Total expenditures	<u>\$ 205,308</u>	<u>\$ 355,525</u>	<u>320,937</u>	<u>\$ 34,588</u>
Deficiency of revenues over expenditures		<u>(240,138)</u>	<u>(199,777)</u>	<u>(28,815)</u>
<b>OTHER FINANCING SOURCES</b>				
Bond proceeds	\$ 45,000	\$ 4,000,000	4,000,000	\$ -
Operating transfers in	<u>50,000</u>	<u>339,361</u>	<u>339,359</u>	<u>(2)</u>
	<u>\$ 95,000</u>	<u>\$ 4,339,361</u>	<u>4,339,359</u>	<u>\$ (2)</u>
Excess of revenues and other financing sources over expenditures and other financing uses		<u>4,099,223</u>	4,139,582	<u>(28,817)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>43,843</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 4,183,425</u>	

**CITY OF STERLING, ILLINOIS**  
**LINCOLNWAY-LYNN TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 25,483	\$ 25,483
Other	-	92,600	67,600	(25,000)
	<u>-</u>	<u>92,600</u>	<u>67,600</u>	<u>(25,000)</u>
Total revenues	<u>\$ -</u>	<u>\$ 92,600</u>	<u>93,083</u>	<u>\$ 483</u>
<b>EXPENDITURES</b>				
Community development				
Legal service	\$ -	\$ 64,243	66,866	\$ (2,623)
Other professional service	-	86,436	-	86,436
Bond issuance expense	-	-	267,246	(267,246)
Bond expense	-	-	145	(145)
Debt service				
Interest	-	227,323	227,323	-
	<u>-</u>	<u>227,323</u>	<u>227,323</u>	<u>-</u>
Total expenditures	<u>\$ -</u>	<u>\$ 378,002</u>	<u>561,580</u>	<u>\$ (183,578)</u>
Deficiency of revenues over expenditures			<u>(468,497)</u>	
<b>OTHER FINANCING SOURCES</b>				
Bond proceeds	-	\$ 6,196,757	6,199,757	\$ (3,000)
Advance of bond proceeds to developer	-	(6,120,000)	(5,258,633)	(861,367)
	<u>-</u>	<u>76,757</u>	<u>941,124</u>	<u>\$ (864,367)</u>
Excess of revenues and other financing sources over expenditures and other financing uses		<u>76,757</u>	472,627	<u>(864,367)</u>
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(37,063)</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 435,564</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, 2011**

	<u>Budget</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>favorable</b> <b>(unfavorable)</b>
<b>REVENUES</b>				
Taxes				
Property	\$ 287,180	\$ 290,403	\$ 290,403	\$ -
Sales	108,985	108,900	108,000	(900)
Interest	17,131	14,701	14,184	(517)
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>(216)</u>	<u>(216)</u>
 Total revenues	 <u>\$ 413,296</u>	 <u>\$ 414,004</u>	 <u>412,371</u>	 <u>\$ (1,633)</u>
<b>EXPENDITURES</b>				
Community development				
Bond issuance expense	\$ -	\$ 15,000	19,487	\$ (4,487)
Miscellaneous	1,692	1,702	1,345	357
Debt service				
Principal	400,000	425,000	425,000	-
Interest	<u>52,675</u>	<u>21,167</u>	<u>44,685</u>	<u>(23,518)</u>
 Total expenditures	 <u>\$ 454,367</u>	 <u>\$ 462,869</u>	 <u>490,517</u>	 <u>\$ (27,648)</u>
 Deficiency of revenues over expenditures		 <u>(48,865)</u>	 <u>(78,146)</u>	 <u>26,015</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	\$ -	\$ 1,270,000	1,270,841	\$ (841)
Payments to refunded bond escrow agent	-	(1,225,000)	(1,225,000)	-
Operating transfers in	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>	<u>-</u>
	<u>\$ 16,000</u>	<u>\$ 61,000</u>	<u>61,841</u>	<u>\$ (841)</u>
 Deficiency of revenues and other financing sources over expenditures and other financing uses		 <u>12,135</u>	 <u>(16,305)</u>	 <u>25,174</u>
 <b>FUND DEFICIT, BEGINNING OF YEAR</b>			 <u>(461,884)</u>	
 <b>FUND DEFICIT, END OF YEAR</b>			 <u>\$ (478,189)</u>	

**CITY OF STERLING, ILLINOIS**  
**ROCK RIVER TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
Property	\$ 453,358	\$ 486,255	\$ 486,255	\$ -
Intergovernmental				
Federal grants	20,000	20,000	5,750	(14,250)
Interest	177	172	171	(1)
Other	<u>10</u>	<u>10</u>	<u>-</u>	<u>(10)</u>
Total revenues	<u>\$ 473,545</u>	<u>\$ 506,437</u>	<u>492,176</u>	<u>\$ (14,261)</u>
<b>EXPENDITURES</b>				
Community development				
Other professional service	\$ 25,500	\$ 25,500	32,604	\$ (7,104)
Legal service	125,000	210,000	240,356	(30,356)
Environmental/USTs	50,000	-	-	-
Bad debt expense	-	-	59,700	(59,700)
Miscellaneous	10,639	6,503	4,628	1,875
Debt service				
Principal	135,000	135,000	135,000	-
Interest	<u>31,352</u>	<u>16,000</u>	<u>13,538</u>	<u>2,462</u>
Total expenditures	<u>\$ 377,491</u>	<u>\$ 393,003</u>	<u>485,826</u>	<u>\$ (92,823)</u>
Excess of revenues over expenditures		<u>113,434</u>	<u>6,350</u>	<u>78,562</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		<u>113,434</u>	<u>6,350</u>	<u>78,562</u>
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(940,196)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (933,846)</u>	

**CITY OF STERLING, ILLINOIS**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**April 30, 2011**

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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:

	<b><u>Actual</u></b>	<b><u>Budget</u></b>
NWSW Redevelopment Fund	\$2,317,690	\$2,235,658
Linconway-Lynn Tax Increment Allocation Fund	561,580	378,002
CBD Tax Increment Allocation Fund	490,517	462,869
Rock River Tax Increment Allocation Fund	485,826	393,003

**SUPPLEMENTAL INFORMATION**

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING BALANCE SHEET  
April 30, 2011

	Special Revenue										Debt Service				Capital Project			Total
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	IMRF Fund	Social Security Fund	Civil Defense Fund	Sterling Civic Center Authority Fund	Whiteside Area Housing Fund	NSP2 Grant Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	Infrastructure Fund				
<b>ASSETS</b>																		
Cash	\$ -	\$ 408,942	\$ 114,499	\$ 75,234	\$ 69,313	\$ 105,597	\$ 56,695	\$ -	\$ -	\$ -	\$ 87,755	\$ 15,704	\$ -	\$ -	\$ -	\$ 933,739		
Investments	400,816	544,145	-	283,602	556,782	-	15,054	-	-	-	-	-	-	-	-	1,800,399		
Receivables (net, where applicable of allowances for uncollectibles)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Taxes	-	442,698	58,692	-	122,494	203,394	10,751	-	-	-	80,683	-	-	-	-	918,712		
Intergovernmental	32,542	11,368	1,288	-	-	541	457	-	109,871	-	-	36,400	-	-	-	192,467		
Accounts	-	-	-	-	-	-	-	-	5,056	-	-	-	-	-	-	41,262		
Notes	-	-	-	290,478	-	-	-	-	-	-	-	-	-	-	-	290,478		
Interest	-	3,259	-	17,533	2,128	-	18	-	-	-	-	-	-	-	-	22,938		
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	402,500	402,500		
<b>TOTAL ASSETS</b>	\$ 433,358	\$ 1,410,412	\$ 174,479	\$ 666,847	\$ 750,717	\$ 309,532	\$ 82,975	\$ -	\$ 5,056	\$ 109,871	\$ 168,438	\$ 52,104	\$ 36,206	\$ 402,500	\$ 4,602,495			
<b>LIABILITIES</b>																		
Accounts payable	\$ 53,883	\$ 3,374	\$ 2,311	\$ 1,887	\$ 22,461	\$ -	\$ -	\$ -	\$ -	\$ 674	\$ -	\$ -	\$ 3,586	\$ -	\$ -	\$ 88,176		
Accrued payroll	-	7,126	5,880	-	-	-	-	-	-	575	-	-	-	-	-	13,581		
Deposits	-	-	-	7,202	-	-	-	-	-	-	-	-	-	-	-	7,202		
Due to other funds	-	-	-	-	-	-	-	-	5,056	108,622	-	-	32,620	-	-	146,298		
Deferred revenue	-	445,669	58,692	-	122,494	203,394	10,751	-	-	-	80,683	-	-	-	-	921,683		
Total liabilities	53,883	456,169	66,883	9,089	144,955	203,394	10,751	-	5,056	109,871	80,683	-	36,206	-	-	1,176,940		
<b>FUND BALANCE</b>																		
Reserved	-	-	-	-	-	-	-	-	-	-	-	-	-	-	402,500	402,500		
Unreserved	379,475	954,243	107,596	657,758	605,762	106,138	72,224	-	-	-	87,755	52,104	-	-	3,023,055			
Total fund balance	379,475	954,243	107,596	657,758	605,762	106,138	72,224	-	-	-	87,755	52,104	-	-	402,500	3,425,555		
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$ 433,358	\$ 1,410,412	\$ 174,479	\$ 666,847	\$ 750,717	\$ 309,532	\$ 82,975	\$ -	\$ 5,056	\$ 109,871	\$ 168,438	\$ 52,104	\$ 36,206	\$ 402,500	\$ 4,602,495			



**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**April 30, 2011**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash	\$ 61,293	\$ 51,434	\$ 112,727
Intergovernmental receivable	-	103	103
Accrued interest receivable	28,864	30,878	59,742
Investments, at fair value	<u>11,325,947</u>	<u>10,968,829</u>	<u>22,294,776</u>
<b>TOTAL ASSETS</b>	<u>11,416,104</u>	<u>11,051,244</u>	<u>22,467,348</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 11,416,104</u>	<u>\$ 11,051,244</u>	<u>\$ 22,467,348</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**Year Ended April 30, 2011**

	<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	\$ 428,102	\$ 412,134	\$ 840,236
Plan members	155,971	114,076	270,047
Total contributions	<u>584,073</u>	<u>526,210</u>	<u>1,110,283</u>
Investment income			
Interest earned	244,551	263,285	507,836
Net change in fair value	827,623	905,552	1,733,175
Total investment income	<u>1,072,174</u>	<u>1,168,837</u>	<u>2,241,011</u>
Other revenue	11,942	6,287	18,229
Total additions	<u>1,668,189</u>	<u>1,701,334</u>	<u>3,369,523</u>
<b>DEDUCTIONS</b>			
Administrative	80,310	51,696	132,006
Benefits	769,035	723,828	1,492,863
Total deductions	<u>849,345</u>	<u>775,524</u>	<u>1,624,869</u>
<b>NET INCREASE</b>	<u>818,844</u>	<u>925,810</u>	<u>1,744,654</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>			
<b>BENEFITS, BEGINNING OF YEAR</b>	<u>10,597,260</u>	<u>10,125,434</u>	<u>20,722,694</u>
<b>NET ASSETS HELD IN TRUST FOR</b>			
<b>PENSION BENEFITS, END OF YEAR</b>	<u>\$ 11,416,104</u>	<u>\$ 11,051,244</u>	<u>\$ 22,467,348</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**April 30, 2011**

	<b>CGH Medical Center</b>	<b>Foreign Fire Insurance Board</b>	<b>Total Component Units</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 5,791,322	\$ 27,792	\$ 5,819,114
Patient accounts receivable, less allowance for uncollectible accounts	23,184,431	-	23,184,431
Other receivables	713,256	-	713,256
Estimated third-party payor settlements	15,515	-	15,515
Due from unconsolidated investees	167,614	-	167,614
Inventories	2,386,174	-	2,386,174
Accrued interest receivable	174,135	-	174,135
Prepaid expenses	2,551,930	-	2,551,930
Total current assets	<u>34,984,377</u>	<u>27,792</u>	<u>35,012,169</u>
Other assets			
Assets limited as to use	45,781,498	-	45,781,498
Capital assets, net	74,075,740	-	74,075,740
Unamortized bond issue costs	253,429	-	253,429
Investment in real estate	1,964,530	-	1,964,530
Goodwill	1,262,399	-	1,262,399
Other investments	30,942	-	30,942
Net equity in unconsolidated investees	5,035,885	-	5,035,885
Total other assets	<u>128,404,423</u>	<u>-</u>	<u>128,404,423</u>
<b>TOTAL ASSETS</b>	<u>163,388,800</u>	<u>27,792</u>	<u>163,416,592</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	7,634,441	-	7,634,441
Deferred income taxes	2,875,339	-	2,875,339
Note payable to bank	2,650,528	-	2,650,528
Notes payable to physicians	1,725,000	-	1,725,000
Revenue bonds payable, current maturities	805,918	-	805,918
Estimated third-party payor settlements	6,697,697	-	6,697,697
Current maturities of obligations under capital lease	804,631	-	804,631
Other current liabilities	11,083,762	-	11,083,762
Total current liabilities	<u>34,277,316</u>	<u>-</u>	<u>34,277,316</u>
Long-term liabilities			
Obligations under capital lease, less current maturities	1,364,302	-	1,364,302
Notes payable to physicians	1,725,000	-	1,725,000
Revenue bonds payable, less current maturities and net of unamortized discount	28,334,251	-	28,334,251
Total noncurrent liabilities	<u>31,423,553</u>	<u>-</u>	<u>31,423,553</u>
Total liabilities	<u>65,700,869</u>	<u>-</u>	<u>65,700,869</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	64,464,976	-	64,464,976
Restricted for:			
Health development	2,766,230	-	2,766,230
Unrestricted	30,456,725	27,792	30,484,517
Total net assets	<u>\$ 97,687,931</u>	<u>\$ 27,792</u>	<u>\$ 97,715,723</u>
Total liabilities and net assets	<u>\$ 163,388,800</u>	<u>\$ 27,792</u>	<u>\$ 163,416,592</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - COMPONENT UNITS**  
**Year Ended April 30, 2011**

	<b>CGH Medical Center</b>	<b>Foreign Fire Insurance Board</b>	<b>Total Component Units</b>
<b>OPERATING REVENUE</b>			
Net patient service revenue	\$ 139,054,266	\$ -	\$ 139,054,266
Other revenue	<u>4,449,037</u>	<u>19,779</u>	<u>4,468,816</u>
Total operating revenue	<u>143,503,303</u>	<u>19,779</u>	<u>143,523,082</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	57,973,165	-	57,973,165
Employee benefits	18,238,476	-	18,238,476
Pension expense	6,422,357	-	6,422,357
Medical fees	8,602,903	-	8,602,903
Patient service supplies	19,688,985	-	19,688,985
Utilities	1,748,322	-	1,748,322
Purchased services	4,572,949	-	4,572,949
Repairs and replacements	4,388,878	35,458	4,424,336
Depreciation and amortization	10,307,309	-	10,307,309
Insurance	2,209,180	-	2,209,180
Rental expense	460,849	-	460,849
Other	<u>4,740,295</u>	<u>5,233</u>	<u>4,745,528</u>
Total operating expenses	<u>139,353,668</u>	<u>40,691</u>	<u>139,394,359</u>
Income from operations	<u>4,149,635</u>	<u>(20,912)</u>	<u>4,128,723</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Contributions	365,153	-	365,153
Interest income	251,055	254	251,309
Loss on asset disposal	(12,702)	-	(12,702)
Increase in net equity of investees	<u>812,758</u>	<u>-</u>	<u>812,758</u>
Total nonoperating revenues (expenses)	<u>1,416,264</u>	<u>254</u>	<u>1,416,518</u>
Change in net assets, before income tax	5,565,899	(20,658)	5,545,241
<b>BENEFIT FOR INCOME TAXES</b>	<u>496,233</u>	<u>-</u>	<u>496,233</u>
Change in net assets	6,062,132	(20,658)	6,041,474
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>91,625,799</u>	<u>48,450</u>	<u>91,674,249</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 97,687,931</u>	<u>\$ 27,792</u>	<u>\$ 97,715,723</u>

**CITY OF STERLING**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ending April 30, 2011

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title and Major Program Designation	CFDA Number (A)	Receipts/Revenues		Expenditure/Disbursements		Obligations/ Encumb. (G)	Final Status (H)	Budget (I)
		Year 5/1/09-4/30/10 (C)	Year 5/1/10-4/30/11 (D)	Year 5/1/09-4/30/10 (E)	Year 5/1/10-4/30/11 (F)			
US Environmental Protection Agency - Office of Solid Waste & Emergency Response								
Passed Through Illinois Environmental Protection Agency								
Recovery-Brownsfields Assess. & Cleanup Coop. Agreements(M)	66.818		1,000,000		1,000,000	0	1,000,000	1,000,000
Recovery-Brownsfields Assess. & Cleanup Coop. Agreements	66.818		5,750		5,750	0	5,750	20,000
US Department of Justice - Bureau of Justice Assistance								
Passed Through Illinois Criminal Justice Information Authority								
Edward Byrne Memorial Justice Assistance Grant Program	16.738		64,676		64,676	0	64,676	69,579
Edward Byrne Memorial Justice Assistance Grant Program	16.738		2,544		2,544	0	2,544	0
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to all States	16.803		38,552		38,552	0	38,552	0
US Department of Transportation - National Highway Traffic Safety Administration								
Passed Through Illinois Department of Transportation								
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		7,660		7,660	0	7,660	0
State and Community Highway Safety Grants	20.600		7,499		7,499	0	7,499	0
US Department of Housing and Urban Development								
Neighborhood Stabilization Program 2 Grant	14.256		237,709		237,709	0	237,709	195,359
<b>TOTAL FEDERAL AWARDS</b>			<b>1,364,390</b>		<b>1,364,390</b>	<b>0</b>	<b>1,364,390</b>	<b>1,284,938</b>

• (M) Program was audited as a major program as defined by OMB Circular A-133.

The accompanying notes are an integral part of this schedule.

**CITY OF STERLING**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**  
**Year Ending April 30, 2011**

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sterling and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2: Subrecipients**

The City of Sterling did not provide federal assistance to subrecipients.

Program Title/Subrecipient Name	Federal CFDA Number	Amount Provided to Subrecipients
N/A		

**CITY OF STERLING**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ending April 30, 2011**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified  
(Unqualified, Qualified, Adverse, Disclaimer)

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- Material weakness(es) identified? \_\_\_\_\_ YES      X   NO
- Significant Deficiency(s) identified that are not considered to be material weakness(es) \_\_\_\_\_ YES      X   None Reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ YES      X   NO

**FEDERAL AWARDS**

**INTERNAL CONTROL OVER MAJOR PROGRAMS:**

- Material weakness(es) identified? \_\_\_\_\_ YES      X   NO
- Significant Deficiency(s) identified that are not considered to be material weakness(es) \_\_\_\_\_ YES      X   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified  
(Unqualified, Qualified, Adverse, Disclaimer)

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, § .510(a)? \_\_\_\_\_ YES      X   NO

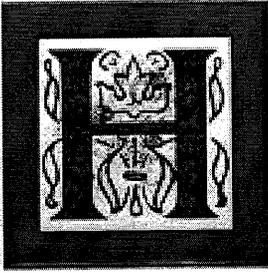
**IDENTIFICATION OF MAJOR PROGRAMS:**

CFDA NUMBER(S)	NAME OF FEDERAL PROGRAM or CLUSTER
66.818	Recovery Act - Brownsfields Assessment and Cleanup Cooperative Agreements

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.00

Auditee qualified as low-risk auditee? \_\_\_\_\_ YES      X   NO

## **OTHER INFORMATION**



*HOPKINS & ASSOCIATES*  
*Certified Public Accountants*

306 S. McCoy St. Box 224  
Granville, IL 61326

1301 Peoria St.  
Peru, IL 61354

726 South Main St.  
Princeton, IL 61356

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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, 2011, and have issued our report thereon dated September 23, 2011. 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.

*Hopkins & Assoc.*

Granville, Illinois  
September 23, 2011