

**CITY OF STERLING, ILLINOIS**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended April 30, 2012**

# CITY OF STERLING, ILLINOIS

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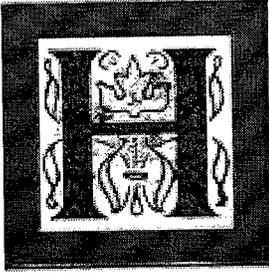
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**INDEPENDENT AUDITOR'S REPORT**

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, 2012, 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, a 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 unit, is based on the reports of the other auditors.

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

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, 2012, 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.

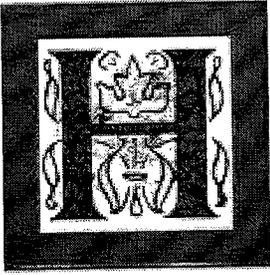
In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 79-87 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 7-16 and in the Schedule of Funding Progress on page 78 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  
October 3, 2012



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**INDEPENDENT AUDITOR'S 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, 2012, and have issued our report thereon dated October 3, 2012. 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

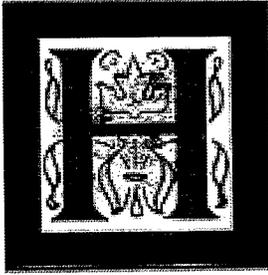
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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  
October 3, 2012



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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, 2012. 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, 2012.

## 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  
October 3, 2012

## **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, 2012. 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 \$34,523,214 (net assets). Of this amount, \$11,640,289 (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 \$4,020,476 from the prior year. The net assets of the City's business-type activities increased by \$439,556, or 4.2%, and the net assets of the City's governmental activities increased by \$3,580,920, or 17.9%.
- In the City's governmental activities, revenues increased \$2,241,498, or 14.7%, and expenses decreased \$1,750,451, or 11.5%.
- In the City's business-type activities, revenues increased \$364,990, or 14.0%, and expenses increased \$74,345, or 3.1%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,995,986, or 37.6% 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, Capital Fund, Municipal Coliseum Fund, NSP 2 Grant Fund, CBD Tax Increment Allocation Fund, Lincolnway-Lynn Tax Increment Allocation Fund and Rock River Tax Increment Allocation Fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in these financial statements.

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

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide

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

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

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

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

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

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

### **Financial Analysis of the City as a Whole**

As noted earlier, net 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 \$34,523,214 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 (37.8%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2011 - FY 2012
Current and other assets	\$ 26.5	\$ 25.5	\$ 3.6	\$ 3.1	\$ 30.1	\$ 28.6	5.2%
Capital assets	20.4	18.5	8.9	9.1	29.3	27.6	6.2%
Total assets	<u>\$ 46.9</u>	<u>\$ 44.0</u>	<u>\$ 12.5</u>	<u>\$ 12.2</u>	<u>\$ 59.4</u>	<u>\$ 56.2</u>	5.7%
Long-term liabilities outstanding	\$ 16.1	\$ 17.0	\$ 1.4	\$ 1.6	\$ 17.5	\$ 18.6	-5.9%
Other liabilities	7.2	7.0	0.2	0.2	7.4	7.2	2.8%
Total liabilities	<u>\$ 23.3</u>	<u>\$ 24.0</u>	<u>\$ 1.6</u>	<u>\$ 1.8</u>	<u>\$ 24.9</u>	<u>\$ 25.8</u>	-3.5%
Net assets:							
Invested in capital assets, net of debt	\$ 5.5	\$ 8.2	\$ 7.5	\$ 7.4	\$ 13.0	\$ 15.6	-16.7%
Restricted	9.8	6.2	-	-	9.8	6.2	58.1%
Unrestricted	8.3	5.6	3.4	3.0	11.7	8.6	36.0%
Total net assets	<u>\$ 23.6</u>	<u>\$ 20.0</u>	<u>\$ 10.9</u>	<u>\$ 10.4</u>	<u>\$ 34.5</u>	<u>\$ 30.4</u>	13.5%

An additional portion of the City's net assets (28.5%) represent resources that are subject to external restrictions on how they may be used. There was an increase of \$3,548,389 in restricted net assets reported in connection with the City's governmental funds. A majority of this increase is due to the creation of the Capital Fund, which holds funds that are restricted for capital projects only.

The remaining balance of *unrestricted net assets* (\$11,640,289, or 33.7% of total net assets) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$2,756,147 in unrestricted net assets reported in connection with the City's governmental funds. A majority of this increase is due to the decrease in the amount of investment in capital assets, net of related debt.

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 \$4,020,476 during the current fiscal year. A large portion of this increase (53.1%) is due to a decline in expenditures to redevelop Plant 1 in the NSW Redevelopment Fund.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2011 - FY 2012
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 1.9	\$ 1.8	\$ 2.6	\$ 2.5	\$ 4.5	\$ 4.3	4.7%
Operating grants and contributions	0.3	1.2	-	-	0.3	1.2	-75.0%
Capital grants and contributions	1.9	0.5	-	-	1.9	0.5	280.0%
<b>General revenues:</b>							
Property taxes	4.1	4.0	-	-	4.1	4.0	2.5%
Other taxes	7.3	6.8	-	-	7.3	6.8	7.4%
Other	1.5	1.0	0.3	0.1	1.8	1.1	63.6%
<b>Total revenues</b>	<b>17.0</b>	<b>15.3</b>	<b>2.9</b>	<b>2.6</b>	<b>19.9</b>	<b>17.9</b>	<b>11.2%</b>
<b>Program expenses:</b>							
General government	2.6	2.3	-	-	2.6	2.3	13.0%
Public safety	4.3	4.2	-	-	4.3	4.2	2.4%
Public works and transportation	2.5	2.9	-	-	2.5	2.9	-13.8%
Community development	0.9	3.1	-	-	0.9	3.1	-71.0%
Culture and recreation	0.8	0.6	-	-	0.8	0.6	33.3%
Other	1.8	1.7	-	-	1.8	1.7	5.9%
Interest on long-term debt	0.5	0.4	-	-	0.5	0.4	25.0%
Sewer	-	-	1.5	1.5	1.5	1.5	0.0%
Solid waste	-	-	1.0	0.9	1.0	0.9	11.1%
<b>Total expenses</b>	<b>13.4</b>	<b>15.2</b>	<b>2.5</b>	<b>2.4</b>	<b>15.9</b>	<b>17.6</b>	<b>-9.7%</b>
Change in net assets	3.6	0.1	0.4	0.2	4.0	0.3	1233.3%
Net assets, beginning of year, as restated	20.0	19.9	10.5	10.3	30.5	30.2	1.0%
Net assets, end of year	\$ 23.6	\$ 20.0	\$ 10.9	\$ 10.5	\$ 34.5	\$ 30.5	13.1%

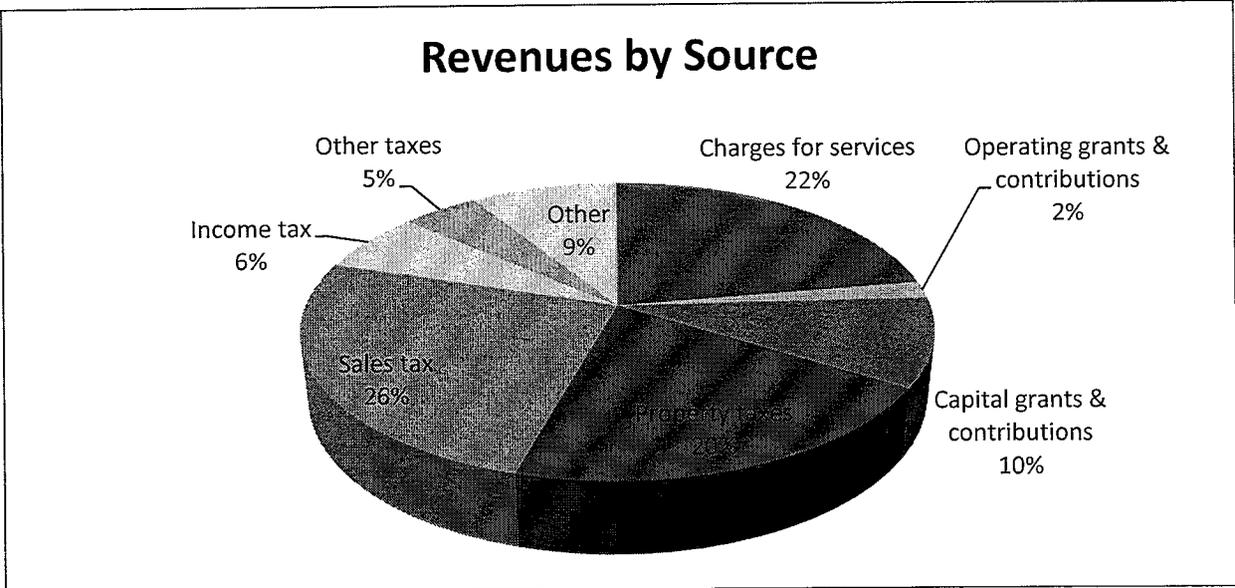
Governmental activities increased the City's net assets by \$3,580,920. Key elements of this increase are as follows:

- Governmental revenues increased by approximately 11.6%. A majority of this increase (\$1,737,070, or 98.5%) was due to the Neighborhood Stabilization Program 2 Grant.
- Governmental expenses decreased by approximately 11.5%. This decrease is comprised of the following:
  - Decrease in expenditures for the redevelopment of NWSW Plant 1 of \$2,136,379, or 122.0%.
  - Increase in expenditures for activities related to the Neighborhood Stabilization Program 2 Grant of \$1,840,054, or 105.1%.

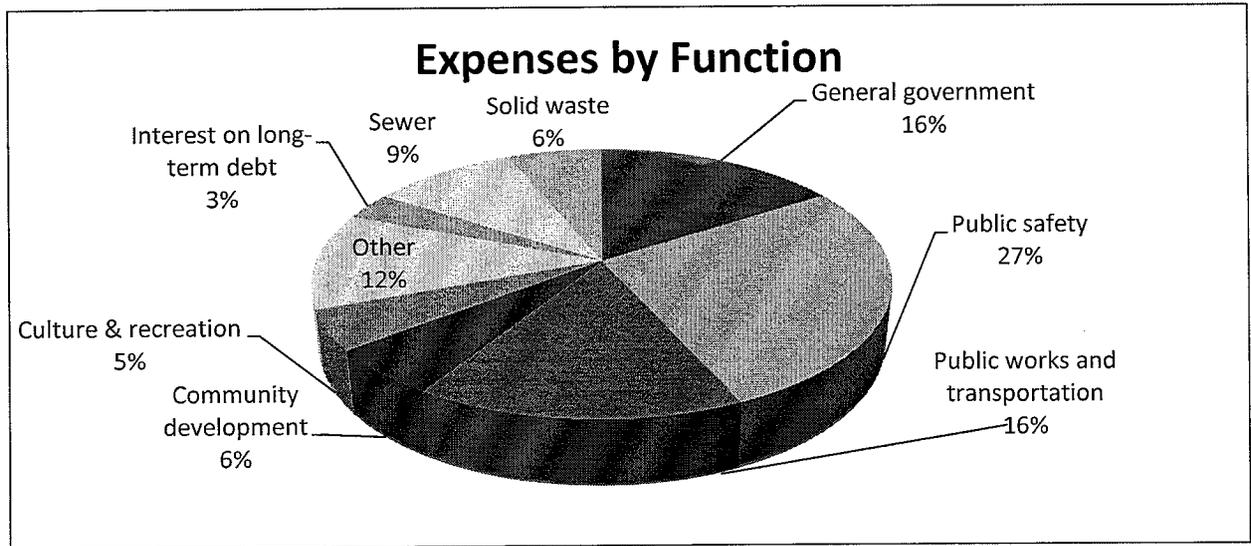
Business-type activities increased the City's net assets by \$439,556. Key elements of this increase are as follows:

- Business-type revenues increased by approximately 14.2%. This increase is mainly related to the 10.2% increase in the minimum basic sewer charges.
- Business-type expenses increased by approximately 3.1%, which is mainly due to inflation.

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



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



During the current fiscal year, 59% of the City's expenses were for public safety, public works and transportation, and general government. Expenses for sewer operations, solid waste, community development and other activities were between 6% and 15% of total costs, while community development, culture and recreation and interest expenses made up the bottom 8% 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 \$14,493,145, an increase of \$38,487 in comparison with the prior year. Approximately 14% of this total amount (\$1,976,760) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, or committed.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,995,986, while the total fund balance reached \$4,718,237. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 37.6% of total General Fund expenditures, while total fund balance represents 44.4% of that same amount.

The fund balance of the City's General Fund decreased by \$3,722,654 during the current fiscal year. A large component of this decrease is the transfer of \$4,266,899 from the General Fund to the Capital Fund in compliance with the City's fund balance policy.

**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 \$3,295,080, and those for the Solid Waste Fund amounted to \$75,273. The total growth (reduction) in net assets for both funds was \$451,654 and \$(12,098), 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 \$389,966 (or 3.7% increase in appropriations) and can be briefly summarized as follows:

- \$1,470 in miscellaneous increases in general government activities
- \$8,538 in miscellaneous decreases in public safety
- \$116,751 in increases for public works and transportation (mainly due to an increase in street projects)
- \$12,716 in miscellaneous decreases in community development activities
- \$44,466 in increases for other expenditures (mainly due to an increase in legal costs)
- \$74,167 in increases for debt service
- \$210,781 in increases for 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, 2012, amounts to \$29,352,574 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, and infrastructure. The total increase in the City’s investment in capital assets for the current fiscal year was approximately 6.6% (a 10.5% increase for governmental activities and a 1.5% decrease for business-type activities).

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

- The W. 3<sup>rd</sup> Street Reconstruction Project (Ave C to Ave G) was completed at a cost of \$794,675.
- SCBA air packs were purchased for the Fire Department at a total cost of \$109,639.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2011 - FY 2012
Land	\$ 1.1	\$ 1.1	\$ 0.1	\$ 0.1	\$ 1.2	\$ 1.2	0.0%
Construction in progress	2.1	0.3	0.1	-	2.2	0.3	633.3%
Buildings and equipment	6.4	6.3	7.1	7.0	13.5	13.3	1.5%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	24.0	23.1	10.8	10.6	34.8	33.7	3.3%
Subtotal	34.4	31.6	18.1	17.7	52.5	49.3	6.5%
Less: accumulated depreciation	14.0	13.2	9.2	8.5	23.2	21.7	6.9%
Total	\$ 20.4	\$ 18.4	\$ 8.9	\$ 9.2	\$ 29.3	\$ 27.6	6.2%

**Long-term debt.** At the end of the current fiscal year, the City had \$17,493,856 in bonds and notes outstanding, which is a decrease of \$1,078,957, or 5.8%, over the prior year.

During the current fiscal year, the City took out loans for the following:

- Dump truck loan for \$99,972
- Farmers Market roof loan for \$91,620
- SCBA air pack loan for \$109,639

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2009	FY 2011 - FY 2012
Bonds payable	\$ 15.7	\$ 16.7	\$ -	\$ -	\$ 15.7	\$ 16.7	-6.0%
Loans payable	0.2	-	1.4	1.6	1.6	1.6	0.0%
Redevelopment agreements	0.2	0.3	-	-	0.2	0.3	-33.3%
<b>Total</b>	<b>\$ 16.1</b>	<b>\$ 17.0</b>	<b>\$ 1.4</b>	<b>\$ 1.6</b>	<b>\$ 17.5</b>	<b>\$ 18.6</b>	<b>-5.9%</b>

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 \$15,264,334, 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 2013 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 2013 fiscal year are \$9,633,299, a decrease of 14.3% from the final fiscal year 2012 budget of \$11,245,878. The movement of local option sales tax and some donation revenue to the Capital Fund is the main cause of this expected decrease. These revenues will be moved because they are to be spent on capital projects, which is the purpose of the Capital Fund.

Budgeted expenditures in the General Fund are expected to decrease \$5,533,992, or approximately 36.5%, to \$9,632,476. The largest increments of this decrease are as follows:

- Expenses related to capital purchases or capital projects will now be spent out of the Capital Fund. In the past, these were spent out of the General Fund.
- The operating transfer from the General Fund to the Capital Fund is expected to be significantly lower than it was for fiscal year 2012. The transfer for fiscal year 2012 was very large (\$4,266,899) because this was the first year the City implemented a fund balance policy.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase by \$823 by the close of fiscal year 2013.

### **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, 2012**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business - type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash	\$ 2,724,319	\$ 282,861	\$ 3,007,180	\$ 3,187,361
Restricted cash	-	55,214	55,214	-
Investments	10,311,293	2,970,954	13,282,247	-
Taxes receivable	4,394,159	-	4,394,159	-
Intergovernmental receivables	2,302,028	7,867	2,309,895	-
Accounts receivable (net of allowance for uncollectibles)	5,921,576	211,667	6,133,243	35,429,157
Notes receivable (net of allowance for uncollectibles)	279,896	-	279,896	-
Interest receivable	69,088	22,134	91,222	150,896
Other receivables	-	-	-	3,920,201
Estimated third-party payor settlements	-	-	-	352,625
Due from unconsolidated investees	-	-	-	198,513
Inventories	61,254	-	61,254	3,086,609
Prepaid expenses	1,706	-	1,706	2,243,732
Net pension asset	128,769	-	128,769	-
Other assets	320,287	-	320,287	-
Capital assets:				
Land and construction in progress	3,128,206	199,680	3,327,886	-
Infrastructure, net	13,878,868	-	13,878,868	-
Other capital assets, net	3,400,115	8,745,705	12,145,820	73,801,348
Assets limited as to use	-	-	-	37,018,922
Unamortized bond issue costs	-	-	-	231,198
Other assets	-	-	-	3,175,394
Net equity in unconsolidated investees	-	-	-	5,444,719
Total assets	<u>\$ 46,921,564</u>	<u>\$ 12,496,082</u>	<u>\$ 59,417,646</u>	<u>\$ 168,240,675</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 367,108	\$ 118,655	\$ 485,763	\$ 6,250,731
Claims payable	58,770	-	58,770	-
Accrued malpractice	-	-	-	1,079,970
Accrued payroll	185,276	15,886	201,162	-
Accrued interest	75,240	8,097	83,337	-
Deposits	21,257	320	21,577	-
Deferred revenue	4,593,971	-	4,593,971	-
Estimated third-party payor settlements	-	-	-	5,455,895
Other current liabilities	-	-	-	16,826,338
Accrued compensated absences	364,342	37,386	401,728	-
Other postemployment benefits obligation	1,554,268	-	1,554,268	-
Long-term liabilities:				
Due within one year	513,526	154,312	667,838	3,293,125
Due in more than one year	15,572,820	1,253,198	16,826,018	29,367,228
Total liabilities	<u>\$ 23,306,578</u>	<u>\$ 1,587,854</u>	<u>\$ 24,894,432</u>	<u>\$ 62,273,287</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 5,507,182	\$ 7,537,875	\$ 13,045,057	\$ 65,595,724
Restricted for:				
Special revenue	5,548,190	-	5,548,190	-
Non-Spendable - Inventory and Prepaid Expenses	62,960	-	62,960	-
Debt service	92,647	-	92,647	-
Health development	-	-	-	2,539,849
Capital projects	4,134,071	-	4,134,071	-
Unrestricted	8,269,936	3,370,353	11,640,289	37,831,815
Total net assets	<u>\$ 23,614,986</u>	<u>\$ 10,908,228</u>	<u>\$ 34,523,214</u>	<u>\$ 105,967,388</u>
Total liabilities and net assets	<u>\$ 46,921,564</u>	<u>\$ 12,496,082</u>	<u>\$ 59,417,646</u>	<u>\$ 168,240,675</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, 2012

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	Governmental Activities	Primary Government Business-Type Activities			Total
			Operating Grants and Contributions	Capital Grants and Contributions			Governmental Activities	Business-Type Activities		
Primary government										
Governmental activities:										
General government	\$ 2,561,428	\$ 1,414,042	\$ 2,000	\$ 16,500	\$ -	\$ (1,128,886)	\$ -	\$ (1,128,886)	\$ -	
Public safety	4,349,166	207,542	123,892	27,360	-	(3,990,372)	-	(3,990,372)	-	
Public works and transportation	2,499,793	-	-	-	-	(2,499,793)	-	(2,499,793)	-	
Community development	906,103	220,921	154,285	1,862,773	-	1,331,876	-	1,331,876	-	
Culture and recreation	765,078	16,199	77,851	26,374	-	(644,654)	-	(644,654)	-	
Other	1,848,382	-	-	-	-	(1,848,382)	-	(1,848,382)	-	
Interest on long-term debt	513,838	-	-	-	-	(513,838)	-	(513,838)	-	
Total governmental activities	\$ 13,443,788	\$ 1,858,704	\$ 358,028	\$ 1,933,007	\$ -	\$ (9,294,049)	\$ -	\$ (9,294,049)	\$ -	
Business-type activities:										
Sewer	\$ 1,520,893	\$ 1,727,097	\$ -	\$ -	\$ -	\$ -	\$ 206,204	\$ 206,204	\$ 206,204	\$ -
Solid waste	979,481	913,943	-	-	-	-	(65,538)	(65,538)	(65,538)	-
Total business-type activities	\$ 2,500,374	\$ 2,641,040	\$ -	\$ -	\$ -	\$ -	\$ 140,666	\$ 140,666	\$ 140,666	\$ -
Total primary government	\$ 15,944,162	\$ 4,499,744	\$ 358,028	\$ 1,933,007	\$ -	\$ (9,294,049)	\$ 140,666	\$ (9,153,383)	\$ (9,153,383)	\$ -
Component unit										
CGH Medical Center	\$ 187,779,058	\$ 188,450,838	\$ 421,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,093,377
Foreign Fire Insurance Board	26,758	-	-	-	-	-	-	-	-	(26,758.0)
General Revenues:										
Property taxes, levied for general purposes		\$ 4,079,423	\$ -	\$ -	\$ -	\$ 4,079,423	\$ -	\$ 4,079,423	\$ -	\$ -
Sales tax		5,116,744	-	-	-	5,116,744	-	5,116,744	-	-
Personal property replacement tax		415,901	-	-	-	415,901	53,030	468,931	-	-
Income tax and surcharge		1,302,239	-	-	-	1,302,239	-	1,302,239	-	-
Fire protection revenue		207,586	-	-	-	207,586	-	207,586	-	-
Motor fuel tax		449,473	-	-	-	449,473	-	449,473	-	-
Investment income		562,336	-	-	-	562,336	267,806	830,142	-	1,176,541
Increase in net equity in unconsolidated investees		-	-	-	-	-	-	-	-	408,834
Other		1,189,624	-	-	-	1,189,624	2,796	1,192,420	-	5,702,193
Special item - gain (loss) on disposal of asset		(473,357)	-	-	-	(473,357)	258	(473,099)	-	(102,522)
Transfers - internal activity		25,000	-	-	-	25,000	(25,000)	-	-	-
Total general revenues and transfers		\$ 12,874,969	\$ 298,890	\$ 13,173,859	\$ -	\$ 13,173,859	\$ 298,890	\$ 13,173,859	\$ 7,185,046	\$ -
Change in net assets		\$ 3,580,920	\$ 439,556	\$ 4,020,476	\$ -	\$ 4,020,476	\$ 439,556	\$ 4,020,476	\$ 8,251,665	\$ -
NET ASSETS, BEGINNING OF YEAR		20,034,066	10,468,672	30,502,738		30,502,738		30,502,738	97,715,723	
NET ASSETS, END OF YEAR		23,614,986	10,908,228	34,523,214		34,523,214		34,523,214	105,967,388	

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, 2012**

	General Fund	Capital Fund	Municipal Coliseum Fund	NSP2 Grant Fund	CBD Tax		Lincolnway-Lynn Tax		Rock River		Total Governmental Funds
					Increment Allocation Fund	Increment Allocation Fund	Increment Allocation Fund	Tax Allocation Fund	Other Governmental Funds		
<b>ASSETS</b>											
Cash	\$ 437,967	\$ -	\$ 1,111,937	\$ -	\$ 6,690	\$ 196,394	\$ -	\$ 903,936	\$ -	\$ 2,656,924	
Investments	5,945,319	-	-	-	330,957	-	1,677,087	1,857,385	-	9,810,748	
Receivables											
Taxes	2,456,398	-	88,047	-	296,829	42,194	512,154	998,537	-	4,394,159	
Intergovernmental	1,654,287	-	1,916	548,008	18,333	-	451	79,033	-	2,302,028	
Accounts receivable	44,211	-	245	-	-	-	-	47,598	-	92,054	
Notes	-	-	-	-	-	-	-	279,896	-	279,896	
Interest	28,977	-	-	-	2,047	-	-	30,964	-	61,988	
Inventory	61,254	-	-	-	-	-	-	-	1,706	61,254	
Prepaid expenses	-	-	-	-	-	-	-	-	-	1,706	
Due from other funds	-	-	-	-	-	-	-	-	402,500	402,500	
	<u>1,229,166</u>	<u>4,266,899</u>	<u>3,185,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,084,347</u>	
<b>TOTAL ASSETS</b>	<b>\$ 11,857,579</b>	<b>\$ 4,266,899</b>	<b>\$ 4,387,927</b>	<b>\$ 548,008</b>	<b>\$ 654,856</b>	<b>\$ 238,588</b>	<b>\$ 2,189,692</b>	<b>\$ 4,601,555</b>	<b>\$ 28,745,104</b>		
<b>LIABILITIES</b>											
Accounts payable	\$ 139,332	\$ 4,353	\$ 5,425	\$ 36,096	\$ 52	\$ -	\$ 140,097	\$ 41,753	\$ -	\$ 367,108	
Accrued payroll	167,116	-	2,084	1,312	-	-	-	14,764	-	185,276	
Deposits	100	-	2,590	-	-	-	-	18,567	-	21,257	
Due to other funds	4,266,899	-	-	510,600	852,500	322,273	2,352,909	779,166	-	9,084,347	
Deferred revenue	2,565,895	-	168,547	-	296,829	42,194	512,154	1,008,352	-	4,593,971	
Total liabilities	<u>7,139,342</u>	<u>4,353</u>	<u>178,646</u>	<u>548,008</u>	<u>1,149,381</u>	<u>364,467</u>	<u>3,005,160</u>	<u>1,862,602</u>	<u>-</u>	<u>14,251,959</u>	
<b>FUND EQUITY</b>											
Fund balance	\$ 630,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684,102	\$ -	\$ 1,314,430	
Nonspendable	91,923	-	4,209,281	-	-	-	-	2,638,205	-	6,939,409	
Restricted	-	4,262,546	-	-	(494,525)	(125,879)	(815,468)	-	-	4,262,546	
Committed	3,995,986	-	-	-	(494,525)	(125,879)	(815,468)	(583,354)	-	1,976,760	
Unassigned	4,718,237	4,262,546	4,209,281	-	(494,525)	(125,879)	(815,468)	2,738,953	-	14,493,145	
Total fund equity	<u>11,857,579</u>	<u>4,266,899</u>	<u>4,387,927</u>	<u>548,008</u>	<u>654,856</u>	<u>238,588</u>	<u>2,189,692</u>	<u>4,601,555</u>	<u>28,745,104</u>		
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 11,857,579</b>	<b>\$ 4,266,899</b>	<b>\$ 4,387,927</b>	<b>\$ 548,008</b>	<b>\$ 654,856</b>	<b>\$ 238,588</b>	<b>\$ 2,189,692</b>	<b>\$ 4,601,555</b>	<b>\$ 28,745,104</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**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**Year Ended April 30, 2012**

Total governmental fund balances		\$ 14,493,145
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 \$13,992,893		20,407,189
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		5,817,107
Net pension asset		128,769
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(11,860,000)
Tax increment bonds payable		(3,520,000)
Special service area bonds payable		(314,576)
Redevelopment agreements payable		(228,000)
Notes payable		(163,770)
Other postemployment benefit obligation		(1,554,268)
Compensated absences		(364,342)
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.		(75,240)
Bond issue costs are reported as expenditures in the governmental funds. The cost is \$441,189 and accumulated amortization is \$120,902.		320,287
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	\$ 587,455	
Liabilities	<u>(58,770)</u>	<u>528,685</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 23,614,986</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, 2012

	General Fund	Capital Fund	Municipal Coliseum Fund	NSP2 Grant Fund	CBD Tax Increment Allocation Fund	Lincolnway-		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	\$ 7,076,025	\$ -	\$ 81,311	\$ -	\$ 409,503	\$ -	\$ -	\$ 561,358	\$ 1,067,970	\$ 9,196,167
Intergovernmental	1,935,146	-	12,918	1,846,941	-	-	-	34,743	579,337	4,409,085
Licenses and permits	778,444	-	-	-	-	-	-	-	-	778,444
Fines and penalties	207,542	-	-	-	-	-	-	-	-	207,542
Charges for services	69,996	-	21,714	-	-	-	-	237,120	237,120	328,830
Investment income	398,667	-	6,175	-	27,155	-	-	143	99,560	531,700
Donations	127,696	-	16,500	-	-	-	-	-	112,953	257,149
Other	713,155	-	-	-	-	-	332,804	-	143,665	1,189,624
Total revenues	\$ 11,306,671	\$ -	\$ 138,618	\$ 1,846,941	\$ 436,658	\$ -	\$ 332,804	\$ 596,244	\$ 2,240,605	\$ 16,898,541
<b>EXPENDITURES</b>										
Current										
General government	\$ 432,505	\$ -	\$ 144,649	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495,892	\$ 1,073,046
Public safety	4,192,944	-	-	-	-	-	-	-	8,713	4,201,657
Public works and transportation	1,456,384	4,353	-	-	-	-	-	-	239,677	1,700,414
Community development	284,565	-	-	62,267	1,594	-	2,985	313,444	214,498	879,353
Culture and recreation	-	-	-	-	-	-	-	-	780,521	780,521
Other	2,668,425	-	-	-	-	-	-	-	-	2,668,425
Debt service										
Principal	137,461	-	-	-	450,000	-	60,000	155,000	374,392	1,176,853
Interest	3,355	-	148,722	-	17,400	-	272,788	9,422	71,506	523,173
Capital outlay	1,451,885	-	294,391	2,016,071	-	-	-	-	124,318	3,886,665
Total expenditures	\$ 10,627,504	\$ 4,353	\$ 587,762	\$ 2,078,338	\$ 468,994	\$ -	\$ 335,773	\$ 477,866	\$ 2,309,517	\$ 16,890,107
Excess (deficiency) of revenues over expenditures	\$ 679,167	\$ (4,353)	\$ (449,144)	\$ (231,397)	\$ (32,336)	\$ -	\$ (2,969)	\$ 118,378	\$ (68,912)	\$ 8,434
<b>OTHER FINANCING SOURCES (USES)</b>										
Loan proceeds	\$ 301,231	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301,231
Advance of bond proceeds to developer	-	-	-	-	-	-	(558,474)	-	-	(558,474)
Sale of property	29,847	-	-	231,397	-	-	-	-	1,052	262,296
Operating transfers in	25,000	4,266,899	475,000	-	16,000	-	-	-	-	4,782,899
Operating transfers out	(4,757,899)	-	-	-	-	-	-	-	-	(4,757,899)
Total other financing sources (uses)	\$ (4,401,821)	\$ 4,266,899	\$ 475,000	\$ 231,397	\$ 16,000	\$ -	\$ (558,474)	\$ -	\$ 1,052	\$ 30,053
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (3,722,654)	\$ 4,262,546	\$ 25,856	\$ -	\$ (16,336)	\$ -	\$ (561,443)	\$ 118,378	\$ (67,860)	\$ 38,487
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	8,440,891	-	4,183,425	-	(478,189)	-	435,564	(933,846)	2,806,813	14,454,658
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	\$ 4,718,237	\$ 4,262,546	\$ 4,209,281	\$ -	\$ (494,525)	\$ -	\$ (125,879)	\$ (815,468)	\$ 2,738,953	\$ 14,493,145

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, 2012**

Net change in fund balances - total governmental funds \$ 38,487

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

Governmental funds report capital outlays as expenditures.

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

2,698,978

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

Loss on the sale of capital assets

(504,256)

Proceeds from the sale of capital assets

(231,397)

(735,653)

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

\$ (301,231)

Payments

1,176,853

Advance of bond proceeds to developer

558,474

Change in compensated absences

22,651

Change in net pension obligation

56,709

Accrued interest

9,335

1,522,791

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.

(24,554)

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

80,871

**Change in net assets of governmental activities**

\$ 3,580,920

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, 2012**

	<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	\$ 211,503	\$ 71,358	\$ 282,861	\$ 67,395
Restricted cash	55,214	-	55,214	-
Investments	2,967,328	3,626	2,970,954	500,545
Intergovernmental receivable	-	7,867	7,867	-
Accounts receivable	132,739	78,928	211,667	12,415
Accrued interest	22,134	-	22,134	7,100
Total current assets	<u>\$ 3,388,918</u>	<u>\$ 161,779</u>	<u>\$ 3,550,697</u>	<u>\$ 587,455</u>
Property and equipment				
Land	\$ 148,598	\$ -	\$ 148,598	\$ -
Utility system	7,068,339	18,982	7,087,321	-
Inceptors	1,563,440	-	1,563,440	-
Storm sewers	5,454,559	-	5,454,559	-
Separation work	3,801,298	-	3,801,298	-
Construction in progress	51,082	-	51,082	-
	<u>\$ 18,087,316</u>	<u>\$ 18,982</u>	<u>\$ 18,106,298</u>	<u>\$ -</u>
Accumulated depreciation	9,160,913	-	9,160,913	-
Total capital assets (net of accumulated depreciation)	<u>\$ 8,926,403</u>	<u>\$ 18,982</u>	<u>\$ 8,945,385</u>	<u>\$ -</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 12,315,321</b></u>	<u><b>\$ 180,761</b></u>	<u><b>\$ 12,496,082</b></u>	<u><b>\$ 587,455</b></u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 40,356	\$ 78,299	\$ 118,655	\$ -
Claims payable	-	-	-	58,770
Accrued payroll	14,296	1,590	15,886	-
Deposits	-	320	320	-
Accrued vacation	31,089	6,297	37,386	-
Accrued interest	8,097	-	8,097	-
Current portion of notes payable	154,312	-	154,312	-
Total current liabilities	<u>\$ 248,150</u>	<u>\$ 86,506</u>	<u>\$ 334,656</u>	<u>\$ 58,770</u>
Noncurrent liabilities				
Notes payable (net of current portion)	\$ 1,253,198	\$ -	\$ 1,253,198	\$ -
Total noncurrent liabilities	<u>\$ 1,253,198</u>	<u>\$ -</u>	<u>\$ 1,253,198</u>	<u>\$ -</u>
Total liabilities	<u>\$ 1,501,348</u>	<u>\$ 86,506</u>	<u>\$ 1,587,854</u>	<u>\$ 58,770</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 7,518,893	\$ 18,982	\$ 7,537,875	\$ -
Unrestricted	3,295,080	75,273	3,370,353	528,685
Total net assets	<u>\$ 10,813,973</u>	<u>\$ 94,255</u>	<u>\$ 10,908,228</u>	<u>\$ 528,685</u>
Total liabilities and net assets	<u><b>\$ 12,315,321</b></u>	<u><b>\$ 180,761</b></u>	<u><b>\$ 12,496,082</b></u>	<u><b>\$ 587,455</b></u>

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

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - PROPRIETARY FUND TYPES**  
**Year Ended April 30, 2012**

	<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	\$ 1,727,097	\$ -	\$ 1,727,097	\$ -
Solid waste service fees	-	913,943	913,943	-
Employer contributions	-	-	-	1,152,145
Employee contributions	-	-	-	360,138
Other revenue	2,762	34	2,796	-
Total operating revenue	<u>\$ 1,729,859</u>	<u>\$ 913,977</u>	<u>\$ 2,643,836</u>	<u>\$ 1,512,283</u>
<b>OPERATING EXPENSES</b>				
Administration	-	-	-	215,326
Life insurance premiums	-	-	-	9,160
Waste water treatment plant	595,195	-	595,195	-
Solid waste disposal	-	979,481	979,481	-
Maintenance	16,688	-	16,688	-
Billing and collection	163,105	-	163,105	-
Non-departmental	362,032	-	362,032	-
Benefit payments	-	-	-	1,237,562
Depreciation	342,219	-	342,219	-
Total operating expenses	<u>\$ 1,479,239</u>	<u>\$ 979,481</u>	<u>\$ 2,458,720</u>	<u>\$ 1,462,048</u>
Operating income (loss)	<u>\$ 250,620</u>	<u>\$ (65,504)</u>	<u>\$ 185,116</u>	<u>\$ 50,235</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	53,030	53,030	-
Interest income	101,602	118	101,720	15,133
Net change in fair value of investments	166,086	-	166,086	15,503
Interest expense	(41,654)	-	(41,654)	-
Total nonoperating revenues (expenses)	<u>\$ 226,034</u>	<u>\$ 53,148</u>	<u>\$ 279,182</u>	<u>\$ 30,636</u>
Net income (loss) before other financing sources (uses)	<u>\$ 476,654</u>	<u>\$ (12,356)</u>	<u>\$ 464,298</u>	<u>\$ 80,871</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	258	258	-
Operating transfers out	(25,000)	-	(25,000)	-
Total other financing sources (uses)	<u>\$ (25,000)</u>	<u>\$ 258</u>	<u>\$ (24,742)</u>	<u>\$ -</u>
Net income (loss)	<u>\$ 451,654</u>	<u>\$ (12,098)</u>	<u>\$ 439,556</u>	<u>\$ 80,871</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,362,319</u>	<u>106,353</u>	<u>10,468,672</u>	<u>447,814</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 10,813,973</u>	<u>\$ 94,255</u>	<u>\$ 10,908,228</u>	<u>\$ 528,685</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, 2012**

	<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	\$ -	\$ -	\$ -	\$ 1,512,283
Receipts from customers	1,743,098	924,787	2,667,885	-
Payments to employees	(408,298)	(43,751)	(452,049)	-
Payments to suppliers	(709,136)	(932,524)	(1,641,660)	-
Payments for premiums, claims, and related services	-	-	-	(1,456,035)
Net cash provided by (used in) operating activities	<u>\$ 625,664</u>	<u>\$ (51,488)</u>	<u>\$ 574,176</u>	<u>\$ 56,248</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State replacement tax	\$ -	\$ 53,201	\$ 53,201	\$ -
Operating transfers to other funds	(25,000)	-	(25,000)	-
Net cash provided by (used in) non-capital financing activities	<u>\$ (25,000)</u>	<u>\$ 53,201</u>	<u>\$ 28,201</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on notes payable	\$ (203,335)	\$ -	\$ (203,335)	\$ -
Interest paid on notes payable	(42,784)	-	(42,784)	-
Capital assets acquired	(191,336)	(18,982)	(210,318)	-
Proceeds from the sale of capital assets	-	258	258	-
Net cash used in capital financing activities	<u>\$ (437,455)</u>	<u>\$ (18,724)</u>	<u>\$ (456,179)</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	\$ (1,445,000)	\$ -	\$ (1,445,000)	\$ (326,179)
Proceeds from the sale of investments	174,443	-	174,443	18,396
Interest received	87,323	118	87,441	8,241
Net cash provided by (used in) investing activities	<u>\$ (1,183,234)</u>	<u>\$ 118</u>	<u>\$ (1,183,116)</u>	<u>\$ (299,542)</u>
<b>NET CHANGE IN CASH</b>	<u>\$ (1,020,025)</u>	<u>\$ (16,893)</u>	<u>\$ (1,036,918)</u>	<u>\$ (243,294)</u>
<b>CASH, BEGINNING OF YEAR</b>	<u>1,286,742</u>	<u>88,251</u>	<u>1,374,993</u>	<u>310,689</u>
<b>CASH, END OF YEAR</b>	<u>\$ 266,717</u>	<u>\$ 71,358</u>	<u>\$ 338,075</u>	<u>\$ 67,395</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>				
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 250,620	\$ (65,504)	\$ 185,116	\$ 50,235
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	342,219	-	342,219	-
Effects of changes in operating assets and liabilities				
Accounts receivable	13,239	10,810	24,049	(12,053)
Accounts payable	20,231	2,475	22,706	-
Claims payable	-	-	-	18,066
Accrued payroll	901	315	1,216	-
Compensated absences	(1,546)	416	(1,130)	-
	<u>\$ 625,664</u>	<u>\$ (51,488)</u>	<u>\$ 574,176</u>	<u>\$ 56,248</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, 2012**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ASSETS</b>		
Cash	\$ 394,322	\$ 1,186
Accrued interest receivable	59,201	-
Investments, at fair value	21,771,617	-
<b>TOTAL ASSETS</b>	<b>\$ 22,225,140</b>	<b>\$ 1,186</b>
 <b>LIABILITIES</b>	 \$ -	 \$ -
 <b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	 <b>\$ 22,225,140</b>	 <b>\$ 1,186</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 CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended April 30, 2012**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Trust Committee Fund</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 930,435	\$ -
Plan members	<u>267,412</u>	<u>-</u>
Total contributions	<u>\$ 1,197,847</u>	<u>\$ -</u>
Investment income		
Interest earned	\$ 483,159	\$ 1
Net change in fair value	<u>(149,032)</u>	<u>-</u>
Total investment income	<u>\$ 334,127</u>	<u>\$ 1</u>
Other revenue	\$ 12,047	\$ -
Total other revenue	<u>\$ 12,047</u>	<u>\$ -</u>
Total additions	<u>\$ 1,544,021</u>	<u>\$ 1</u>
<b>DEDUCTIONS</b>		
Administrative	\$ 126,728	\$ -
Benefits	<u>1,659,501</u>	<u>-</u>
Total deductions	<u>\$ 1,786,229</u>	<u>\$ -</u>
<b>NET INCREASE (DECREASE)</b>	<u>\$ (242,208)</u>	<u>\$ 1</u>
<b>NET ASSETS HELD IN TRUST, BEGINNING OF YEAR</b>	<u>22,467,348</u>	<u>1,185</u>
<b>NET ASSETS HELD IN TRUST, END OF YEAR</b>	<u>\$ 22,225,140</u>	<u>\$ 1,186</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, 2012**

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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, 2012**

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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, 2012**

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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, 2012**

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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)**

**Proprietary Funds (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, 2012**

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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)**

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

**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.

**NSP2 Grant Fund** - This fund is used to account for the revenues and expenditures associated with the Neighborhood Stabilization Program 2 Grant. Financing is provided by federal grant 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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**BASIS OF ACCOUNTING (CONTINUED)**

relates to the timing of the measurements made, regardless of the measurement focus applied.

**Accrual**

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

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. The City has elected to take exception to this assumption for 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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**ESTIMATES (CONTINUED)**

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BUDGETS**

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

The City prepares an appropriation ordinance and budget for the General, Special Revenue, Debt Service, Capital Projects and Enterprise Funds. The appropriation ordinance represents the legal spending limits for the City. The budget is used to control those limits. The appropriation ordinance and budget was passed on April 18, 2011 and was amended on April 16, 2012. 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, 2012**

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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, 2012**

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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 expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

GASB Statement No. 34 required the City to report and depreciate newly acquired infrastructure assets effective for the year ended April 30, 2004. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008 (other than proprietary funds). The City implemented the 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, 2011 represents installments of the 2010 property taxes which were received during 2011. The 2011

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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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, 2012, as it was budgeted for fiscal year 2013.

**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, 2012**

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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**

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

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

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

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

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

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

**Fund Statements (Continued)**

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

**INTERFUND TRANSACTIONS**

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

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

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 \$3,255,339 and the bank balances totaled \$3,520,759. Cash on hand was \$202,563.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 2. Deposits and Investments (Continued)

**Primary Government (Continued)**

At year end, the investment maturities are as follows:

	<b>Investment Maturities (in years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>10 or more</b>
Certificates of Deposit	\$ 531,147	\$ 308,669	\$ 222,478	\$ -	\$ -
Money Market	2,309,135	2,309,135	-	-	-
U.S. Treasuries	11,816,140	1,229,650	4,976,286	4,373,584	1,236,620
U.S. Agencies	6,479,563	-	4,107	42,030	6,433,426
IL Treas. Investment	1,984,844	1,984,844	-	-	-
Mutual Funds	8,132,997	8,132,997	-	-	-
Annuities	2,703,276	2,703,276	-	-	-
Stock	1,096,762	1,096,762	-	-	-
	<u>\$ 35,053,864</u>	<u>\$ 17,765,333</u>	<u>\$ 5,202,871</u>	<u>\$ 4,415,614</u>	<u>\$ 7,670,046</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, 2012, the City had \$1,984,844 in the Pool, which approximates fair value.

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

**Interest Rate Risk**

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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Note 2. Deposits and Investments (Continued)

**Credit Risk**

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

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, 2012, 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, 2012, 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, 2012**

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2012, was as follows:

	<u>Balance at May 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2012</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 1,055,361	\$ -	\$ -	\$ 1,055,361
Construction in Progress	307,406	3,311,873	1,546,434	2,072,845
Total capital assets not being depreciated	<u>\$ 1,362,767</u>	<u>\$ 3,311,873</u>	<u>\$ 1,546,434</u>	<u>\$ 3,128,206</u>
Capital Assets being depreciated				
Buildings	\$ 1,602,836	\$ 194,270	\$ -	\$ 1,797,106
Equipment	4,734,039	286,516	369,283	4,651,272
Land Improvements	787,920	-	-	787,920
Infrastructure	23,130,791	904,787	-	24,035,578
Total capital assets being depreciated	<u>\$ 30,255,586</u>	<u>\$ 1,385,573</u>	<u>\$ 369,283</u>	<u>\$ 31,271,876</u>
Less accumulated depreciation for				
Buildings	\$ 628,913	\$ 53,319	\$ -	\$ 682,232
Equipment	2,927,344	278,443	325,482	2,880,305
Land Improvements	257,783	15,863	-	273,646
Infrastructure	9,342,699	814,011	-	10,156,710
Total accumulated depreciation	<u>\$ 13,156,739</u>	<u>\$ 1,161,636</u>	<u>\$ 325,482</u>	<u>\$ 13,992,893</u>
Total capital assets being depreciated, net	<u>\$ 17,098,847</u>	<u>\$ 223,937</u>	<u>\$ 43,801</u>	<u>\$ 17,278,983</u>
Governmental activities capital assets, net	<u>\$ 18,461,614</u>	<u>\$ 3,535,810</u>	<u>\$ 1,590,235</u>	<u>\$ 20,407,189</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2012</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in Progress	19,538	31,544	-	51,082
Total capital assets not being depreciated	<u>\$ 168,136</u>	<u>\$ 31,544</u>	<u>\$ -</u>	<u>\$ 199,680</u>
Capital Assets being depreciated				
Buildings and equipment	\$ 6,966,801	\$ 120,520	\$ -	\$ 7,087,321
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,396,307	58,252	-	5,454,559
Sewer separation work	3,801,298	-	-	3,801,298
Total capital assets being depreciated	<u>\$ 17,727,846</u>	<u>\$ 178,772</u>	<u>\$ -</u>	<u>\$ 17,906,618</u>
Less accumulated depreciation for				
Buildings and equipment	\$ 3,664,656	\$ 129,154	\$ -	\$ 3,793,810
Interceptors, mains, and pump stations	1,061,005	27,132	-	1,088,137
Storm sewers	1,797,312	109,759	-	1,907,071
Sewer separation work	2,295,723	76,172	-	2,371,895
Total accumulated depreciation	<u>\$ 8,818,696</u>	<u>\$ 342,217</u>	<u>\$ -</u>	<u>\$ 9,160,913</u>
Total capital assets being depreciated, net	<u>\$ 8,909,150</u>	<u>\$ (163,445)</u>	<u>\$ -</u>	<u>\$ 8,745,705</u>
Business-type activities capital assets, net	<u>\$ 9,077,286</u>	<u>\$ (131,901)</u>	<u>\$ -</u>	<u>\$ 8,945,385</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 3. Capital Assets (Continued)

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

Governmental activities:

General government	\$ 118,827
Public safety	123,558
Public works and transport.	793,226
Community Development	15,066
Culture and recreation	30,672
Other	80,287
Total depreciation expense	<u><u>\$ 1,161,636</u></u>

Business-type activities:

Sewer	\$ 342,217
Solid waste	-
Total depreciation expense	<u><u>\$ 342,217</u></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, 2012**

Note 4. Risk Management (Continued)

Claims payable, April 30, 2011	\$ 40,704
Claims incurred	1,237,562
Claims paid	(1,219,496)
Claims payable, April 30, 2012	<u>\$ 58,770</u>

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2012 are summarized as follows:

	<u>Balance at</u> <u>April 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at</u> <u>April 30, 2012</u>	<u>Due within</u> <u>1 year</u>
<b>Governmental activities:</b>					
Bonds payable	\$ 16,708,968	\$ -	\$ 1,014,392	\$ 15,694,576	\$ 370,825
Loans payable	-	301,231	137,461	163,770	117,701
Redevelopment agreements	253,000	-	25,000	228,000	25,000
Compensated absences	386,993	-	22,651	364,342	364,342
	<u>\$ 17,348,961</u>	<u>\$ 301,231</u>	<u>\$ 1,199,504</u>	<u>\$ 16,450,688</u>	<u>\$ 877,868</u>
<b>Business-type activities:</b>					
Notes payable	\$ 1,610,845	\$ -	\$ 203,335	\$ 1,407,510	\$ 154,312
Compensated absences	38,516	-	1,130	37,386	37,386
	<u>\$ 1,649,361</u>	<u>\$ -</u>	<u>\$ 204,465</u>	<u>\$ 1,444,896</u>	<u>\$ 191,698</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, 2012**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

<b>Year Ending</b>		
<b>April 30</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 140,000	\$ 26,943
2014	140,000	22,253
2015	150,000	17,212
2016	155,000	11,812
2017	160,000	6,000
	<u>\$ 745,000</u>	<u>\$ 84,220</u>

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.

\$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>Year Ending</b>		
<b>April 30</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ -	\$ 4,450
2014	445,000	4,450
	<u>\$ 445,000</u>	<u>\$ 8,900</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:

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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.

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<u>April 30</u>		
2013	\$ 25,500	\$ 5,510
2014	25,500	4,088
2015	25,500	2,666
2016	25,500	1,244
	<u>\$ 102,000</u>	<u>\$ 13,508</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>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<u>April 30</u>		
2013	\$ 25,325	\$ 12,755
2014	26,845	11,235
2015	28,456	9,624
2016	30,163	7,917
2017	31,973	6,107
2018-2019	69,814	6,345
	<u>\$ 212,576</u>	<u>\$ 53,983</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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

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

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

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<u>April 30</u>		
2013	\$ 180,000	\$ 133,760
2014	205,000	126,920
2015	230,000	119,130
2016	255,000	110,390
2017	280,000	100,700
2018-2022	1,880,000	320,340
2023	490,000	18,620
	<u>\$ 3,520,000</u>	<u>\$ 929,860</u>

\$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>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<u>April 30</u>		
2013	\$ -	\$ 7,650
2014	200,000	13,300
2015	200,000	8,800
2016	210,000	3,150
	<u>\$ 610,000</u>	<u>\$ 32,900</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<b>April 30</b>		
2013	\$ -	\$ 135,644
2014	185,000	268,975
2015	195,000	264,225
2016	200,000	258,934
2017	210,000	252,938
2018-2022	1,245,000	1,140,379
2023-2027	1,730,000	820,953
2028-2032	2,295,000	308,569
	<u>\$ 6,060,000</u>	<u>\$ 3,450,617</u>

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

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<b>April 30</b>		
2013	\$ -	\$ 147,900
2014	-	147,900
2015	90,000	147,900
2016	100,000	146,019
2017	115,000	143,682
2018-2022	710,000	665,068
2023-2027	925,000	531,918
2028-2032	1,195,000	329,141
2033-2035	865,000	72,394
	<u>\$ 4,000,000</u>	<u>\$ 2,331,922</u>

**Loans Payable**

The City entered into a loan agreement for \$99,972 for the purchase of a dump truck dated July 12, 2011, with final payment due April 15, 2013. Interest is at 2.69%, with two payments of \$51,711 each due on April 15, 2012 and 2013. As of April 30, 2012, the balance is \$50,338.

The City entered into a loan agreement for \$91,620 for the purchase of a new roof on the Farmers Market dated December 1, 2011, with final payment due April 1, 2015. Interest is at 2.76%, with three payments of \$24,085 each due on April 1, 2012, 2013 and 2014, and one payment of \$23,925 due on April 1, 2015. As of April 30, 2012, the balance is \$68,244.

The City entered into a loan agreement for \$109,639 for the purchase SCBA equipment dated January 24, 2012, with final payment due April 1, 2013. Interest is at 2.65%, with two payments of \$65,000 and \$46,402 due on April 1, 2012 and 2013, respectively. As of April 30, 2012, the balance is \$45,188.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Redevelopment Agreements**

The City entered into a redevelopment agreement on December 3, 2003 which included a note for \$100,000 for redevelopment improvements. The redevelopment note bears no interest and matures on January 1, 2023. As of April 30, 2012, 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, 2012, the balance is \$160,000.

**Compensated Absences**

The City accrues accumulated unpaid sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. Compensated absences at April 30, 2012 are as follows:

Governmental activities	<u>\$ 364,342</u>
Business-type activities	<u>\$ 37,386</u>

**Net Pension Obligations (Assets)**

At April 30, 2012, the City had the following net pension obligations:

Police pension (asset)	\$ (141,766)
Fire Pension	12,997
Claims payable, April 30, 2012	<u>\$ (128,769)</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 was

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 5. Long-Term Debt (Continued)

**Business-Type Activities (Continued)**

**Loans Payable (Continued)**

guaranteed by future revenues of the City. The loan was paid off during the year ended April 30, 2012.

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, 2012, the balance is \$776,724.

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, 2012, the balance is \$630,786.

**Debt Service Requirement to Maturity**

<b>Fiscal Year</b>	<b>1997 EPA Loan</b>		<b>1996 EPA Loan</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
<b>Ending April 30</b>				
2013	\$ 120,349	\$ 21,584	\$ 38,307	\$ 15,532
2014	123,852	18,081	39,271	14,568
2015	127,457	14,476	40,259	13,580
2016	131,167	10,766	41,272	12,567
2017	134,985	6,947	42,310	11,529
2018-2022	138,914	3,018	228,062	41,135
2023-2026	-	-	201,305	11,372
	<u>\$ 776,724</u>	<u>\$ 74,872</u>	<u>\$ 630,786</u>	<u>\$ 120,283</u>

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2012:

Assessed valuation - 2011 \$ 176,977,785

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 6. Legal Debt Margin

Statutory Debt Limitation (8.625% of assessed limitation)		\$ 15,264,334
Total debt:		
Alternate revenue source bonds	11,860,000	
Tax increment revenue bonds	3,520,000	
Special service area bonds	314,576	
Loans payable	163,770	
EPA loans payable	1,407,510	17,265,856
Less:		
Alternate revenue source bonds	11,860,000	
Tax increment revenue bonds	3,520,000	
Special service area bonds	314,576	
EPA loans payable	1,407,510	17,102,086
Total amount of debt applicable to debt limit		163,770
Legal Debt Margin		\$ 15,100,564

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, 2012, \$10,780,000 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, 2012, \$7,535,000 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, 2012, \$4,145,000 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, 2012, \$135,000 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, 2012, \$9,094,081 of this debt was outstanding.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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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 2011 was 11.14%. 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 2011 was \$275,290.

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/2011	\$ 275,290	100%	\$ -
12/31/2010	268,877	100%	-
12/31/2009	40,473	100%	-

The required contribution for 2011 was determined as part of the December 31, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2009, 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, 2012**

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, 2009 is being amortized as a level percentage of projected payroll on an open 30 year basis.

As of December 31, 2011, the most recent actuarial valuation date, the Regular plan was 82.25% funded. The actuarial accrued liability for benefits was \$9,881,985 and the actuarial value of assets was \$8,127,464, resulting in an underfunded actuarial accrued liability (UAAL) of \$1,754,521. The covered payroll for calendar year 2011 (annual payroll of active employees covered by the plan) was \$2,471,182 and the ratio of the UAAL to the covered payroll was 71%.

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, 2012, 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>12</u>
 Total	 <u>53</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**  
**April 30, 2012**

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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 28.14% 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	25
Terminated employees entitled to benefits but not yet receiving them	2
Current employees:	
Vested	16
Nonvested	<u>4</u>
Total	<u>47</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 8. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit of one-half of the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension shall be increased by one-twelfth of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service, 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 34.14% 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>Police Pension Plan</b>	<b>Firefighters' Pension Plan</b>
Annual required contribution	\$ 468,561	\$ 406,627
Interest on net pension obligation	(9,656)	4,432
Adjustment to annual required contributions	6,954	(3,192)
Annual pension cost	\$ 465,859	\$ 407,867
Contributions made	(474,438)	(455,997)
Change in net pension obligation (asset)	\$ (8,579)	\$ (48,130)
Net pension obligation (asset), beginning of year	(133,187)	61,127
Net pension obligation (asset), end of year	<u>\$ (141,766)</u>	<u>\$ 12,997</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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, 2011
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	26 Years, 0 Months
Actuarial assumptions:	
Investment rate of return	7.25%
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>			
04/30/12	\$ 465,860	101.84%	\$ (141,766)
04/30/11	370,065	115.68%	(133,187)
04/30/10	355,397	91.18%	(75,149)
<u>Firefighters' Pension Fund</u>			
04/30/12	\$ 407,867	111.80%	\$ 12,997
04/30/11	382,360	107.84%	61,127
04/30/10	364,478	70.14%	90,901

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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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>

**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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 9. Other Postemployment Benefits (Continued)

**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:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contributions</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
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	(336,462)
Change in net OPEB obligation	\$ 1,554,268
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 1,554,268

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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Note 9. Other Postemployment Benefits (Continued)

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

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		-
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, 2012**

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
Capital Fund	-	4,266,899
Municipal Coliseum Fund	-	475,000
	<u>25,000</u>	<u>4,757,899</u>
Capital Fund:		
General Fund	<u>4,266,899</u>	<u>-</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	<u>-</u>
Sewer Fund:		
General Fund	<u>-</u>	<u>25,000</u>
Municipal Coliseum Fund:		
General Fund	<u>475,000</u>	<u>-</u>
Total operating transfers	<u>\$ 4,782,899</u>	<u>\$ 4,782,899</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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, 2012 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 \$475,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum. The General Fund also made a transfer of \$4,266,900 to the Capital Fund in compliance with the City's fund balance policy.

**Due From/Due To Other Funds**

	<b>Due From Other Funds</b>	<b>Due From Other Funds</b>
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Capital Fund	-	4,266,899
Nonmajor Governmental	779,166	-
	1,229,166	4,266,899
Capital Fund:		
General Fund	4,266,899	-
Municipal Coliseum Fund:		
NSP2 Grant Fund	510,600	-
Lincolnway-Lynn Tax Increment Allocation Fund	322,273	-
Rock River Tax Increment Allocation Fund	2,352,909	-
	3,185,782	-
NSP2 Grant Fund:		
Municipal Coliseum Fund	-	510,600
Lincolnway-Lynn Tax Increment Allocation Fund:		
Municipal Coliseum Fund	-	322,273

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 10. Interfund Balances (Continued)

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

	<b>Due From Other Funds</b>	<b>Due From Other Funds</b>
CDB Tax Increment Allocation Fund:		
General Fund	-	450,000
Nonmajor Governmental	-	402,500
	-	852,500
Rock River Tax Increment Allocation Fund:		
Municipal Coliseum Fund	-	2,352,909
Nonmajor Governmental:		
General Fund	-	779,166
CBD Tax Increment Allocation Fund	402,500	-
	402,500	779,166
Total due from/due to other funds	\$ 9,084,347	\$ 9,084,347

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, 2012, 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.

The Library Fund owed the General Fund \$132,075 for money loaned to cover expenses for library renovations.

The General Fund owed the Capital Fund \$4,266,899 for the portion of the fund balance that is to be transferred due to the fund balance policy.

Note 11. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2012:

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 11. Other Individual Fund Disclosures (Continued)

	<u>Expenditures</u>	<u>Budget</u>
Capital Fund	\$ 4,353	\$ -
CBD Tax Increment Allocation Fund	468,994	468,882
Rock River Tax Increment Allocation Fund	477,886	400,354
Policemen's Pension Fund	910,926	908,893
Firemen's Pension Fund	875,303	874,952

The following funds had deficit fund balances or deficit retained earnings at April 30, 2012:

	<u>Deficit</u>
Rock River Tax Increment Allocation Fund	\$ 815,468
CBD Tax Increment Allocation Fund	494,525
Lincolnway-Lynn Tax Increment Allocation Fund	125,879
NWSW Redevelopment Fund	583,354

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, 2012.

**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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

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

Statements are sent out approximately every thirty days. On the fourth statement the account is considered delinquent and a collection letter is sent. The account is turned over to collection at approximately one hundred twenty days. At the time they are turned over to collection, they are also written off as uncollectible.

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

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

**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,

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**Investments and Investment Income (Continued)**

and general debt and equity market trends. The Medical Center considers the length of time an investment's fair value has been below carrying value, the near term prospects for recovery to carrying value, and the intent and ability to hold the investment until maturity or market recovery is realized.

**Assets Whose Use is Limited**

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

**Compensated Absences**

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. Up to 80 hours of 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, long-term debt, notes payable to physicians, and obligations under capital leases with contractual maturities greater than one year.

**Net Assets**

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

- *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and assets limited as to use for construction reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted expendable net assets* are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. The restricted amounts for health development consist of amounts donated by various individuals, estates, grants, etc. These funds are restricted by the donor for specific purposes.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**Net Assets (Continued)**

- *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Risk Management**

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

**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	31%
Medicaid	14
Blue Cross	11
Other third-party payors	28
Patients	<u>16</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, income from operations, that represents the activity of the ongoing operations of the Medical Center. Other income and expense, excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Medical Center's primary activities.

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

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as other revenue sources that are defined

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**Classification of Revenues and Expenses (Continued)**

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.

**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. Following is a summary of the payment arrangements with major third party payors:

**Medicare**

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Beginning in 2002, the Medical Center claimed Medicare payments based on an interpretation of certain "disproportionate share" rules. The Medical Center has applied for additional reimbursement under the "disproportionate share" rules for all years from 2002 forward. The Medical Center is also classified as a Medicare Dependent Hospital. The Medical Center has included approximately \$2,667,569 of the claimed excess in Net Patient Service Revenue for the year ended April 30, 2012. 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.

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

**Net Patient Service Revenue (Continued)**

**Medicaid**

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

**Blue Cross**

For services rendered at CGH Medical Center to Blue Cross subscribers are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by Blue Cross. The Medical Center's Blue Cross cost reports have been audited through April 30, 2011.

**Other**

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

Revenue from Medicare and Medicaid programs accounted for approximately 48% and 14%, respectively, of the Medical Center's gross patient service revenue for the year ended April 30, 2012. 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 \$4,404,433 were received and were included in net patient revenue for the year ended April 30, 2012. In relation to this program, the Medical Center has recorded a deferred revenue of \$734,072 at April 30, 2012.

**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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**Component Units**

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

**Income Taxes**

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

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

The CGH Health Centers is a for-profit blended component unit of CGH Medical Center and files a corporate tax return. 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 realized.

**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.

Assets related to the CGH Health Centers acquisition were recorded at fair market values on the date of acquisition based on an external appraisal, 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, 2012**

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, 2012, the net equity in unconsolidated investees is \$5,444,719.

**Deposits and Investments**

The carrying amount of the Medical Center's cash and deposits was \$6,359,173 and the bank balances totaled \$4,854,944. Cash on hand was \$5,995.

As of April 30, 2012, the Medical Center had the following investments

	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	10 or more
Certificates of Deposit	\$ 13,533,064	\$ 8,041,558	\$ 5,491,506	\$ -	\$ -
Mutual Funds	2,675,327	2,675,327	-	-	-
Federated Govt.	3,524,463	3,524,463	-	-	-
FNMA	580,517	-	528,555	-	51,962
U.S. Treasuries	4,543,034	4,543,034	-	-	-
FHLB	310,316	310,316	-	-	-
GNMA	332,788	-	-	-	332,788
FHLMC	85,450	-	-	-	85,450
Municipal Bonds	11,140,981	700,824	10,440,157	-	-
	<u>\$ 36,725,940</u>	<u>\$ 19,795,522</u>	<u>\$ 16,460,218</u>	<u>\$ -</u>	<u>\$ 470,200</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, 2012**

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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, 2012, 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, 2012**

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

**Revenue Bonds Payable (Continued)**

Transactions for the year ended April 30, 2012, are summarized as follows:

	<b>Balance at May 1, 2011</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at April 30, 2012</b>
2003 Municipal Program Revenue Bonds	\$ 8,065,000	\$ -	\$ 530,000	\$ 7,535,000
2006 Municipal Program Revenue Bonds	11,525,000	-	745,000	10,780,000
2011 City of Sterling Hospital Revenue Bonds	9,900,000	-	805,919	9,094,081
Unamortized bond discount	(349,831)	-	(28,678)	(321,153)
<b>Total revenue bonds payable</b>	<b>\$ 29,140,169</b>	<b>\$ -</b>	<b>\$ 2,052,241</b>	<b>\$ 27,087,928</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, 2012 were paid by April 30, 2012. Annual requirements to retire debt obligations are as follows:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 843,047	\$ 1,220,223	\$ 2,063,270
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	2,509,127	819,072	3,328,199
2018-2022	13,105,581	2,314,326	15,419,907
2023-2024	4,030,000	192,931	4,222,931
	<b>\$ 27,409,081</b>	<b>\$ 7,632,493</b>	<b>\$ 35,041,574</b>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

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

**Capital Assets**

Capital asset activity for the year ended April 30, 2012 was as follows:

	<u>Balance at May 1, 2011</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2012</u>
<b>Medical Center</b>				
Land	\$ 2,550,502	\$ -	\$ -	\$ 2,550,502
Land Improvements	2,001,921	14,840	-	2,016,761
Buildings and building improvements	56,611,819	289,219	51,898	56,849,140
Rented buildings	23,481,524	60,556	-	23,542,080
Building service equipment	9,373,346	-	36,688	9,336,658
Moveable equipment	63,046,770	6,465,396	6,244,472	63,267,694
Construction in progress	1,146,201	3,700,210	-	4,846,411
Total cost	<u>\$ 158,212,083</u>	<u>\$ 10,530,221</u>	<u>\$ 6,333,058</u>	<u>\$ 162,409,246</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,399,195	\$ 88,994	\$ -	\$ 1,488,189
Buildings	26,339,002	2,443,658	51,897	28,730,763
Rented buildings	8,329,583	1,058,300	-	9,387,883
Building service equipment	8,868,715	132,253	36,689	8,964,279
Moveable equipment	39,199,848	6,962,363	6,125,427	40,036,784
Total accumulated depreciation	<u>\$ 84,136,343</u>	<u>\$ 10,685,568</u>	<u>\$ 6,214,013</u>	<u>\$ 88,607,898</u>
<b>Total Medical Center capital assets, net</b>	<u>\$ 74,075,740</u>	<u>\$ (155,347)</u>	<u>\$ 119,045</u>	<u>\$ 73,801,348</u>

**Self-Insurance Plan**

The Medical Center adopted a "self-insured" employee medical health plan effective November 1, 1984. A co-insurance policy is maintained covering plan participants for all costs in excess of \$300,000 per person annually. The plan year runs from January 1 to December 31. The Medical Center estimates the amount of incurred but unpaid claims at April 30, 2012 to be approximately \$1,766,802, 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, 2012**

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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 \$1,079,970. 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. Fund Balances

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2012**

Note 13. Fund Balances (Continued)

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Fund</u>	<u>Municipal</u> <u>Coliseum</u> <u>Fund</u>	<u>CBD Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Lincolnway-</u> <u>Lynn Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Rock</u> <u>River Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Other Gov't</u> <u>Funds</u>	<u>Total Gov't</u> <u>Funds</u>
<b>Fund Balances:</b>								
Nonspendable:								
Inventories	\$ 61,254	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,254
Prepaid Items	-	-	-	-	-	-	1,706	1,706
Loans	<u>569,074</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>682,396</u>	<u>1,251,470</u>
Total nonspendable	<u>\$ 630,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,102</u>	<u>\$ 1,314,430</u>
Restricted:								
Public Safety	\$ 91,923	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,615	\$ 169,538
Community Dev	-	-	-	-	-	-	397,180	397,180
Culture & Rec	-	-	-	-	-	-	926,020	926,020
Cap Imp & Equip	-	-	4,209,281	-	-	-	481,543	4,690,824
IMRF/Soc Sec	-	-	-	-	-	-	663,200	663,200
Spec Serv Areas	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,647</u>	<u>92,647</u>
Total Restricted	<u>\$ 91,923</u>	<u>\$ -</u>	<u>\$4,209,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,638,205</u>	<u>\$ 6,939,409</u>
Committed:								
Cap Imp & Equip	<u>\$ -</u>	<u>\$4,262,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,262,546</u>
Unassigned	<u>\$3,995,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(494,525)</u>	<u>\$(125,879)</u>	<u>\$(815,468)</u>	<u>\$(583,354)</u>	<u>\$ 1,976,760</u>
Total Fund Balances	<u>\$4,718,237</u>	<u>\$4,262,546</u>	<u>\$4,209,281</u>	<u>\$(494,525)</u>	<u>\$(125,879)</u>	<u>\$(815,468)</u>	<u>\$2,738,953</u>	<u>\$14,493,145</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF FUNDING PROGRESS**  
**April 30, 2012**

<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>						
4/30/12	\$ 12,313,112	\$ 17,231,453	\$ 4,918,341	71.46%	\$ 1,630,981	301.56%
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%
<b><u>Firemen Pension Fund</u></b>						
4/30/12	\$ 12,045,211	\$ 16,123,841	\$ 4,078,630	74.70%	\$ 1,115,169	365.74%
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%
<b><u>IMRF</u></b>						
12/31/11	\$ 8,127,464	\$ 9,881,985	\$ 1,754,521	82.25%	\$ 2,471,182	71.00%
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%
On a market value basis, the actuarial value of assets as of December 31, 2011 is \$7,582,851. On a market basis, the funded ratio would be 76.73%.						
<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, 2012**

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes:				
Corporate	\$ 409,264	\$ 406,071	\$ 406,071	\$ -
Fire protection	245,558	243,774	243,774	-
Police protection	245,558	243,774	243,774	-
Liability insurance	283,250	282,311	282,311	-
Workers' compensation	96,250	95,604	95,604	-
Road and bridge	125,529	133,912	133,912	-
Police pension	455,203	451,738	451,738	-
Fire pension	430,312	427,097	427,097	-
Total property taxes	<u>\$ 2,290,924</u>	<u>\$ 2,284,281</u>	<u>\$ 2,284,281</u>	<u>\$ -</u>
Sales tax	<u>\$ 4,538,667</u>	<u>\$ 4,804,310</u>	<u>\$ 4,791,744</u>	<u>\$ (12,566)</u>
Intergovernmental revenue:				
State income tax	\$ 1,140,000	\$ 1,197,323	\$ 1,302,239	\$ 104,916
State replacement tax	300,000	262,578	289,977	27,399
Township replacement tax	17,000	15,335	17,881	2,546
Fire Department Wal-Mart Grant	-	2,000	2,000	-
Blackhawk Area Task Force Grant	69,579	67,220	79,276	12,056
Radio Support Grant	-	-	4,094	4,094
Sustained Traffic Enforcement Grant	25,000	18,000	17,318	(682)
Organized Crime Drug Enforcement Program	10,000	5,317	7,286	1,969
Tobacco Grant	2,000	2,090	2,079	(11)
Bulletproof Vest Grant	-	2,473	1,910	(563)
American Water Firefighter Grant	-	1,500	1,500	-
Other grants	-	2,000	2,000	-
Fire protection revenue	197,000	207,586	207,586	-
Total intergovernmental revenue	<u>\$ 1,760,579</u>	<u>\$ 1,783,422</u>	<u>\$ 1,935,146</u>	<u>\$ 151,724</u>
Licenses and permits:				
Franchise licenses	\$ 525,000	\$ 598,148	\$ 612,430	\$ 14,282
Liquor licenses	60,000	69,554	60,743	(8,811)
Building permits	22,000	69,590	57,778	(11,812)
Other	56,750	53,561	47,493	(6,068)
Total licenses and permits	<u>\$ 663,750</u>	<u>\$ 790,853</u>	<u>\$ 778,444</u>	<u>\$ (12,409)</u>
Fines and penalties	<u>\$ 204,050</u>	<u>\$ 207,206</u>	<u>\$ 207,542</u>	<u>\$ 336</u>
Charges for services	<u>\$ 68,050</u>	<u>\$ 69,668</u>	<u>\$ 69,996</u>	<u>\$ 328</u>
Investment income:				
Interest income	\$ 202,999	\$ 189,851	\$ 189,229	\$ (622)
Net change in fair market value	-	-	209,438	209,438
Total investment income	<u>\$ 202,999</u>	<u>\$ 189,851</u>	<u>\$ 398,667</u>	<u>\$ 208,816</u>
Donations	<u>\$ 197,500</u>	<u>\$ 158,558</u>	<u>\$ 127,696</u>	<u>\$ (30,862)</u>
Other	<u>\$ 299,167</u>	<u>\$ 719,637</u>	<u>\$ 713,155</u>	<u>\$ (6,482)</u>
Total revenues	<u>\$10,225,686</u>	<u>\$11,007,786</u>	<u>11,306,671</u>	<u>\$ 298,885</u>

(continued)

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2012**

	<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	\$ 30,488	\$ 30,483	\$ 28,204	\$ 2,279
Office of City Clerk	114,768	119,373	119,787	(414)
Policy and Administration	<u>288,725</u>	<u>285,595</u>	<u>284,514</u>	<u>1,081</u>
Total general government	<u>\$ 433,981</u>	<u>\$ 435,451</u>	<u>\$ 432,505</u>	<u>\$ 2,946</u>
Public safety:				
Police Department				
Police Services Division	\$ 1,476,183	\$ 1,422,543	\$ 1,459,070	\$ (36,527)
Administrative Services Division	312,107	314,397	316,564	(2,167)
Investigative Division	281,971	281,349	291,914	(10,565)
Support Services Division	603,764	596,621	582,741	13,880
Blackhawk Area Task Force Grant	69,579	67,220	83,370	(16,150)
Fire Department				
Fire Services Division	1,298,567	1,365,288	1,309,529	55,759
Administrative Services Division	132,402	121,794	115,713	6,081
Fire Prevention and Training Division	<u>42,700</u>	<u>39,523</u>	<u>34,043</u>	<u>5,480</u>
Total public safety	<u>\$ 4,217,273</u>	<u>\$ 4,208,735</u>	<u>\$ 4,192,944</u>	<u>\$ 15,791</u>
Public works and transportation:				
Administrative Division	\$ 91,979	\$ 90,057	\$ 87,769	\$ 2,288
Street Division	1,141,760	1,234,300	1,166,002	68,298
Traffic Division	47,990	52,749	47,461	5,288
Stormwater Division	-	22	179	(157)
City Shop	44,666	45,604	46,744	(1,140)
City Parks	<u>73,275</u>	<u>93,689</u>	<u>108,229</u>	<u>(14,540)</u>
Total public works and transportation	<u>\$ 1,399,670</u>	<u>\$ 1,516,421</u>	<u>\$ 1,456,384</u>	<u>\$ 60,037</u>
Community development:				
Office of Community Development	<u>\$ 299,145</u>	<u>\$ 286,429</u>	<u>\$ 284,565</u>	<u>\$ 1,864</u>
Other				
Contribution to police pension plan	\$ 455,203	\$ 451,738	\$ 451,738	\$ -
Contribution to fire pension plan	430,312	427,097	427,097	-
Sterling Planning Commission	49,960	36,417	45,038	(8,621)
Police and Fire Commission	10,365	8,200	3,073	5,127
Non-departmental	<u>1,906,143</u>	<u>1,972,997</u>	<u>1,741,479</u>	<u>231,518</u>
Total other	<u>\$ 2,851,983</u>	<u>\$ 2,896,449</u>	<u>\$ 2,668,425</u>	<u>\$ 228,024</u>
Debt service:				
Principal	\$ 74,167	\$ 109,805	\$ 137,461	\$ (27,656)
Interest	-	2,114	3,335	(1,221)
Total debt service	<u>\$ 74,167</u>	<u>\$ 111,919</u>	<u>\$ 140,796</u>	<u>\$ (28,877)</u>
Capital outlay	<u>\$ 1,259,283</u>	<u>\$ 1,470,064</u>	<u>\$ 1,451,885</u>	<u>\$ 18,179</u>
Total expenditures	<u>\$ 10,535,502</u>	<u>\$ 10,925,468</u>	<u>\$ 10,627,504</u>	<u>\$ 297,964</u>
Excess of revenues over expenditures			<u>\$ 679,167</u>	

(continued)

CITY OF STERLING, ILLINOIS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended April 30, 2012

	<u>Appropriation</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>favorable</b>
				<b>(unfavorable)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	\$ 165,000	\$ 191,592	\$ 301,231	\$ 109,639
Sale of property	1,000	20,000	29,847	9,847
Operating transfers in	26,500	26,500	25,000	(1,500)
Operating transfers out	<u>(491,000)</u>	<u>(4,241,000)</u>	<u>(4,757,899)</u>	<u>(516,899)</u>
	<u>\$ (298,500)</u>	<u>\$ (4,002,908)</u>	<u>(4,401,821)</u>	<u>\$ (398,913)</u>
 Deficiency of revenues and other financing sources over expenditures and other financing uses			 \$ (3,722,654)	
 <b>FUND BALANCE, BEGINNING OF YEAR,</b>			 <u>8,440,891</u>	
 <b>FUND BALANCE, END OF YEAR</b>			 <u>\$ 4,718,237</u>	

**CITY OF STERLING, ILLINOIS**  
**CAPITAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2012**

	<b>Budget</b>			<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>favorable</b>
				<b>(unfavorable)</b>
<b>REVENUES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>EXPENDITURES</b>				
Abiding Word detention pond	\$ -	\$ -	\$ 4,353	\$ (4,353)
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>4,353</u>	<u>\$ (4,353)</u>
Deficiency of revenues over expenditures			<u>\$ (4,353)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ -	\$ 3,500,000	4,266,899	\$ (766,899)
	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>4,266,899</u>	<u>\$ (766,899)</u>
Excess of revenues and other financing sources over expenditures and other financing uses			\$ 4,262,546	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>-</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 4,262,546</u>	

**CITY OF STERLING, ILLINOIS**  
**MUNICIPAL COLISEUM FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 81,853	\$ 81,311	\$ 81,311	\$ -
Intergovernmental				
State replacement tax	12,246	12,868	12,918	50
Charges for services	20,820	21,714	21,714	-
Interest	605	6,944	6,175	(769)
Donations	-	97,000	16,500	(80,500)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	<u>\$ 115,524</u>	<u>\$ 219,837</u>	<u>\$ 138,618</u>	<u>\$ (81,219)</u>
<b>EXPENDITURES</b>				
General government				
Salaries	\$ 57,059	\$ 58,319	\$ 58,685	\$ (366)
Health insurance	16,500	16,500	16,500	-
Worker's compensation	8,403	7,617	7,617	-
Maintenance	11,600	19,430	16,101	3,329
Janitorial supplies	4,746	5,944	5,441	503
General utilities	8,500	10,153	9,197	956
General insurance	29,263	26,525	26,525	-
Miscellaneous	4,166	4,825	4,583	242
Debt service				
Interest	159,180	159,180	148,722	10,458
Capital outlay	3,750,000	374,495	294,391	80,104
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	<u>\$ 4,049,417</u>	<u>\$ 682,988</u>	<u>\$ 587,762</u>	<u>\$ 95,226</u>
Deficiency of revenues over expenditures			<u>\$ (449,144)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>\$ 425,000</u>	<u>\$ 475,000</u>	<u>\$ 475,000</u>	<u>\$ -</u>
	<u>\$ 425,000</u>	<u>\$ 475,000</u>	<u>\$ 475,000</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			\$ 25,856	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>4,183,425</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 4,209,281</u>	

**CITY OF STERLING, ILLINOIS**  
**NSP2 GRANT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2012**

	<b>Budget</b>			<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>favorable</b>
				<b>(unfavorable)</b>
<b>REVENUES</b>				
Intergovernmental				
Federal grant	\$ 1,335,000	\$ 1,600,000	\$ 1,846,941	\$ 246,941
Total revenues	\$ 1,335,000	\$ 1,600,000	\$ 1,846,941	\$ 246,941
<b>EXPENDITURES</b>				
Community development				
Salaries	\$ 50,000	\$ 64,000	\$ 26,156	\$ 37,844
Other professional services	6,000	6,000	4,071	1,929
Postage & freight	100	150	294	(144)
Publishing	450	450	1,993	(1,543)
Printing	-	2,200	2,934	(734)
Travel & training	5,000	5,000	789	4,211
General utilities	6,000	6,000	7,799	(1,799)
Office supplies	-	200	187	13
Real estate taxes	-	-	11,775	(11,775)
Miscellaneous	-	-	6,269	(6,269)
Capital outlay	1,267,450	2,305,934	2,016,071	289,863
Total expenditures	\$ 1,335,000	\$ 2,389,934	\$ 2,078,338	\$ 311,596
Deficiency of revenues over expenditures			\$ (231,397)	
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	\$ 75,000	\$ 374,000	\$ 231,397	\$ 142,603
	\$ 75,000	\$ 374,000	\$ 231,397	\$ 142,603
Excess of revenues and other financing sources over expenditures and other financing uses			\$ -	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			-	
<b>FUND BALANCE, END OF YEAR</b>			\$ -	

**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, 2012**

	<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	\$ 294,759	\$ 299,503	\$ 299,503	\$ -
Sales	110,900	110,000	110,000	-
Interest	14,847	15,327	13,018	(2,309)
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>14,137</u>	<u>14,137</u>
Total revenues	<u>\$ 420,506</u>	<u>\$ 424,830</u>	<u>\$ 436,658</u>	<u>\$ 11,828</u>
<b>EXPENDITURES</b>				
Community development				
Bond expense	\$ 798	\$ 630	\$ 629	\$ 1
Miscellaneous	894	852	965	(113)
Debt service				
Principal	450,000	450,000	450,000	-
Interest	<u>17,400</u>	<u>17,400</u>	<u>17,400</u>	<u>-</u>
Total expenditures	<u>\$ 469,092</u>	<u>\$ 468,882</u>	<u>\$ 468,994</u>	<u>\$ (112)</u>
Deficiency of revenues over expenditures			<u>\$ (32,336)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ -</u>
	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			\$ (16,336)	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(478,189)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (494,525)</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, 2012**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
<b>REVENUES</b>				
Other	\$ -	\$ 332,788	\$ 332,804	\$ 16
Total revenues	<u>\$ -</u>	<u>\$ 332,788</u>	<u>\$ 332,804</u>	<u>\$ 16</u>
<b>EXPENDITURES</b>				
Community development				
Legal service	\$ -	\$ 3,000	\$ 2,106	\$ 894
Dues	-	250	250	-
Bond expense	-	630	629	1
Debt service				
Principal	60,000	60,000	60,000	-
Interest	<u>272,788</u>	<u>272,788</u>	<u>272,788</u>	<u>-</u>
Total expenditures	<u>\$ 332,788</u>	<u>\$ 336,668</u>	<u>\$ 335,773</u>	<u>\$ 895</u>
Deficiency of revenues over expenditures			<u>\$ (2,969)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Advance of bond proceeds to developer	\$ -	\$ -	\$ (558,474)	\$ 558,474
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (558,474)</u>	<u>\$ 558,474</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			\$ (561,443)	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>435,564</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (125,879)</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, 2012**

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable (unfavorable)
<b>REVENUES</b>				
Taxes				
Property	\$ 500,843	\$ 561,358	\$ 561,358	\$ -
Intergovernmental				
Federal grants	50,000	51,894	34,743	(17,151)
Interest	174	113	143	30
Other	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ 551,027</u>	<u>\$ 613,365</u>	<u>\$ 596,244</u>	<u>\$ (17,121)</u>
<b>EXPENDITURES</b>				
Community development				
Other professional service	\$ 55,500	\$ 81,894	\$ 70,250	\$ 11,644
Legal service	25,000	100,000	214,164	(114,164)
Environmental/USTs	50,000	50,000	25,305	24,695
Miscellaneous	6,375	3,725	3,725	-
Debt service				
Principal	155,000	155,000	155,000	-
Interest	<u>25,000</u>	<u>9,735</u>	<u>9,422</u>	<u>313</u>
Total expenditures	<u>\$ 316,875</u>	<u>\$ 400,354</u>	<u>\$ 477,866</u>	<u>\$ (77,512)</u>
Excess of revenues over expenditures			<u>\$ 118,378</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			\$ 118,378	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(933,846)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (815,468)</u>	

**CITY OF STERLING, ILLINOIS**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**April 30, 2012**

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**Note 1. Basis of Accounting**

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

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

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

	<u>Actual</u>	<u>Budget</u>
Capital Fund	\$ 4,353	\$ -
CBD Tax Increment Allocation Fund	468,994	468,882
Rock River Tax Increment Allocation Fund	477,886	400,354

## **SUPPLEMENTAL INFORMATION**

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING BALANCE SHEET  
April 30, 2012

	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	Whiteside Area Housing Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund		
ASSETS															
Cash	\$ -	\$ 438,049	\$ 121,542	\$ 39,563	\$ 17,812	\$ 116,121	\$ 61,119	\$ -	\$ 92,647	\$ 16,546	\$ -	\$ 537	\$ -	\$ 903,936	
Investments	400,002	549,392	-	347,839	544,117	-	16,035	-	-	-	-	-	-	1,857,385	
Receivables (net, where applicable of allowances for uncollectibles)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Taxes	-	448,742	58,639	-	191,941	207,790	10,742	-	80,683	-	-	-	-	998,537	
Intergovernmental	29,839	11,125	1,260	-	-	529	447	-	-	35,833	-	-	-	79,033	
Accounts	-	-	-	-	-	-	-	5,056	-	-	35,042	7,500	-	47,598	
Notes	-	-	-	279,896	-	-	-	-	-	-	-	-	-	279,896	
Interest	-	4,096	-	22,087	4,767	-	14	-	-	-	-	-	-	30,964	
Prepaid expenses	-	-	-	1,706	-	-	-	-	-	-	-	-	-	1,706	
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	402,500	402,500	
<b>TOTAL ASSETS</b>	\$ 429,841	\$ 1,451,404	\$ 181,441	\$ 691,091	\$ 758,637	\$ 324,440	\$ 88,357	\$ 5,056	\$ 173,330	\$ 52,379	\$ 35,042	\$ 8,037	\$ 402,500	\$ 4,601,555	
LIABILITIES															
Accounts payable	\$ 677	\$ 4,878	\$ 1,115	\$ 1,242	\$ 20,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,695	\$ -	\$ 41,753	
Accrued payroll	-	8,594	6,170	-	-	-	-	-	-	-	-	-	-	14,764	
Deposits	-	-	-	11,067	-	-	-	-	-	-	-	7,500	-	18,567	
Due to other funds	-	168,872	-	-	-	-	-	5,056	-	-	35,042	570,196	-	779,166	
Deferred revenue	-	438,557	58,639	-	191,941	207,790	10,742	-	80,683	-	-	-	-	1,008,352	
<b>Total Liabilities</b>	\$ 677	\$ 640,901	\$ 65,924	\$ 12,309	\$ 212,087	\$ 207,790	\$ 10,742	\$ 5,056	\$ 80,683	\$ -	\$ 35,042	\$ 591,391	\$ -	\$ 1,862,602	
FUND BALANCE															
Nonspendable	\$ -	\$ -	\$ -	\$ 281,602	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 402,500	\$ 684,102	
Restricted	429,164	810,503	115,517	397,180	546,550	116,650	77,615	-	92,647	52,379	-	(583,354)	-	2,638,205	
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-	(583,354)	
<b>Total fund balance</b>	\$ 429,164	\$ 810,503	\$ 115,517	\$ 678,782	\$ 546,550	\$ 116,650	\$ 77,615	\$ -	\$ 92,647	\$ 52,379	\$ -	\$ (583,354)	\$ 402,500	\$ 2,738,953	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$ 429,841	\$ 1,451,404	\$ 181,441	\$ 691,091	\$ 758,637	\$ 324,440	\$ 88,357	\$ 5,056	\$ 173,330	\$ 52,379	\$ 35,042	\$ 8,037	\$ 402,500	\$ 4,601,555	

CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended April 30, 2012

	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	Whiteside Area Housing Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund						
<b>REVENUES</b>																			
Taxes	\$ -	\$ 411,391	\$ 54,701	\$ -	\$ 114,167	\$ 189,567	\$ 10,019	\$ -	\$ -	\$ 73,125	\$ 215,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,067,970	
Intergovernmental	449,473	109,734	8,495	-	5,050	3,569	3,016	-	-	-	-	-	-	-	-	-	-	579,337	
Charges for services	-	12,885	3,314	124,658	-	-	-	-	-	-	-	-	-	-	-	96,263	-	237,120	
Interest	561	20,023	183	14,245	30,644	232	694	-	142	105	-	-	-	-	-	-	-	66,829	
Net change in fair value of investments	-	7,893	-	-	24,463	-	375	-	-	-	-	-	-	-	-	-	-	32,731	
Donations	-	35,104	28,684	832	-	41,000	-	-	2,025	-	-	-	-	-	48,333	-	-	112,953	
Other	-	61,241	-	899	38,500	-	-	-	-	-	-	-	-	-	-	-	-	143,665	
<b>Total revenues</b>	\$ 450,034	\$ 658,271	\$ 95,377	\$ 140,634	\$ 212,824	\$ 234,368	\$ 14,104	\$ -	\$ 75,292	\$ 215,105	\$ -	\$ -	\$ -	\$ 144,596	\$ -	\$ -	\$ -	\$ 2,240,605	
<b>EXPENDITURES</b>																			
Current																			
General government	\$ -	\$ -	\$ -	\$ -	\$ 272,036	\$ 223,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495,892	
Public safety	-	-	-	-	-	-	8,713	-	-	-	-	-	-	-	-	-	-	8,713	
Public works and transportation	239,047	-	-	-	-	-	-	-	-	630	-	-	-	-	-	-	-	239,677	
Community development	-	-	-	105,290	-	-	-	-	-	-	-	-	-	-	109,208	-	-	214,498	
Culture and recreation	-	693,065	87,456	-	-	-	-	-	-	-	-	-	-	-	-	-	-	780,521	
Debt service																			
Principal	130,000	-	-	-	-	-	-	-	49,392	195,000	-	-	-	-	-	-	-	374,392	
Interest	31,298	109,998	-	-	-	-	-	-	21,008	19,200	-	-	-	-	-	-	-	71,506	
Capital outlay	-	109,998	-	14,320	-	-	-	-	-	-	-	-	-	-	-	-	-	124,318	
<b>Total expenditures</b>	\$ 400,345	\$ 803,063	\$ 87,456	\$ 119,610	\$ 272,036	\$ 223,856	\$ 8,713	\$ -	\$ 70,400	\$ 214,830	\$ -	\$ -	\$ 109,208	\$ -	\$ -	\$ -	\$ -	\$ 2,309,517	
Excess (deficiency) of revenues over expenditures	\$ 49,689	\$ (144,792)	\$ 7,921	\$ 21,024	\$ (59,212)	\$ 10,512	\$ 5,391	\$ -	\$ 4,892	\$ 275	\$ -	\$ -	\$ 35,388	\$ -	\$ -	\$ -	\$ -	\$ (68,912)	
<b>OTHER FINANCING SOURCES (USES)</b>																			
Sale of property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,052	
Total other financing sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,052	
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ 49,689	\$ (143,740)	\$ 7,921	\$ 21,024	\$ (59,212)	\$ 10,512	\$ 5,391	\$ -	\$ 4,892	\$ 275	\$ -	\$ -	\$ 35,388	\$ -	\$ -	\$ -	\$ -	\$ (67,860)	
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	379,475	954,243	107,596	657,758	605,762	106,138	72,224	-	87,755	52,104	-	-	(618,742)	402,500	-	-	-	2,806,813	
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	\$ 429,164	\$ 810,503	\$ 115,517	\$ 678,782	\$ 546,550	\$ 116,650	\$ 77,615	\$ -	\$ 92,647	\$ 52,379	\$ -	\$ -	\$ (583,354)	\$ 402,500	\$ -	\$ -	\$ -	\$ 2,738,953	

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**April 30, 2012**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash	\$ 363,797	\$ 30,525	\$ 394,322
Accrued interest receivable	19,676	39,525	59,201
Investments, at fair value	<u>10,891,673</u>	<u>10,879,944</u>	<u>21,771,617</u>
<b>TOTAL ASSETS</b>	<u>\$ 11,275,146</u>	<u>\$ 10,949,994</u>	<u>\$ 22,225,140</u>
<b>LIABILITIES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 11,275,146</u>	<u>\$ 10,949,994</u>	<u>\$ 22,225,140</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**Year Ended April 30, 2012**

	<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	\$ 474,438	\$ 455,997	\$ 930,435
Plan members	161,631	105,781	267,412
Total contributions	<u>\$ 636,069</u>	<u>\$ 561,778</u>	<u>\$ 1,197,847</u>
Investment income			
Interest earned	\$ 216,777	\$ 266,382	\$ 483,159
Net change in fair value	(94,925)	(54,107)	(149,032)
Total investment income	<u>\$ 121,852</u>	<u>\$ 212,275</u>	<u>\$ 334,127</u>
Other revenue	<u>\$ 12,047</u>	<u>\$ -</u>	<u>\$ 12,047</u>
Total additions	<u>\$ 769,968</u>	<u>\$ 774,053</u>	<u>\$ 1,544,021</u>
<b>DEDUCTIONS</b>			
Administrative	\$ 74,241	\$ 52,487	\$ 126,728
Benefits	836,685	822,816	1,659,501
Total deductions	<u>\$ 910,926</u>	<u>\$ 875,303</u>	<u>\$ 1,786,229</u>
<b>NET DECREASE</b>	<u>\$ (140,958)</u>	<u>\$ (101,250)</u>	<u>\$ (242,208)</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>			
<b>BENEFITS, BEGINNING OF YEAR</b>	<u>11,416,104</u>	<u>11,051,244</u>	<u>22,467,348</u>
<b>NET ASSETS HELD IN TRUST FOR</b>			
<b>PENSION BENEFITS, END OF YEAR</b>	<u>\$ 11,275,146</u>	<u>\$ 10,949,994</u>	<u>\$ 22,225,140</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**April 30, 2012**

	<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	\$ 3,166,744	\$ 20,617	\$ 3,187,361
Patient accounts receivable, less allowance for uncollectible accounts of \$10,940,144	35,429,157	-	35,429,157
Other receivables	3,920,201	-	3,920,201
Estimated third-party payor settlements	352,625	-	352,625
Due from unconsolidated investees	198,513	-	198,513
Inventories	3,086,609	-	3,086,609
Accrued interest receivable	150,896	-	150,896
Prepaid expenses	2,243,732	-	2,243,732
Total current assets	\$ 48,548,477	\$ 20,617	\$ 48,569,094
Other assets			
Assets limited as to use	\$ 37,018,922	\$ -	\$ 37,018,922
Capital assets, net	73,801,348	-	73,801,348
Unamortized bond issue costs	231,198	-	231,198
Other assets	3,175,394	-	3,175,394
Net equity in unconsolidated investees	5,444,719	-	5,444,719
Total other assets	\$ 119,671,581	\$ -	\$ 119,671,581
<b>TOTAL ASSETS</b>	<b>\$ 168,220,058</b>	<b>\$ 20,617</b>	<b>\$ 168,240,675</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 6,250,731	\$ -	\$ 6,250,731
Accrued malpractice	1,079,970	-	1,079,970
Deferred income taxes	1,327,803	-	1,327,803
Current maturities of long-term debt	226,792	-	226,792
Current maturities of notes payable to physicians	1,725,000	-	1,725,000
Revenue bonds payable, current maturities	843,047	-	843,047
Estimated third-party payor settlements	5,455,895	-	5,455,895
Current maturities of obligations under capital lease	498,286	-	498,286
Other current liabilities	15,498,535	-	15,498,535
Total current liabilities	\$ 32,906,059	\$ -	\$ 32,906,059
Long-term liabilities			
Obligations under capital lease, less current maturities	\$ 843,631	\$ -	\$ 843,631
Long-term debt, less current maturities	2,278,716	-	2,278,716
Revenue bonds payable, less current maturities and net of unamortized discount of \$321,153	26,244,881	-	26,244,881
Total noncurrent liabilities	\$ 29,367,228	\$ -	\$ 29,367,228
Total liabilities	\$ 62,273,287	\$ -	\$ 62,273,287
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 65,595,724	\$ -	\$ 65,595,724
Restricted for:			
Health development	2,539,849	-	2,539,849
Unrestricted	37,811,198	20,617	37,831,815
Total net assets	\$ 105,946,771	\$ 20,617	\$ 105,967,388

**CITY OF STERLING, ILLINOIS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - COMPONENT UNITS**  
**Year Ended April 30, 2012**

	<b>CGH Medical Center</b>	<b>Foreign Fire Insurance Board</b>	<b>Total Component Units</b>
<b>OPERATING REVENUE</b>			
Net patient service revenue	\$ 188,450,838	\$ -	\$ 188,450,838
Other revenue	4,614,872	19,478	4,634,350
Total operating revenue	<u>\$ 193,065,710</u>	<u>\$ 19,478</u>	<u>\$ 193,085,188</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 80,798,598	\$ -	\$ 80,798,598
Employee benefits	25,903,267	-	25,903,267
Pension expense	7,575,363	-	7,575,363
Medical fees	8,841,361	-	8,841,361
Patient service supplies	28,167,383	-	28,167,383
Utilities	2,093,806	-	2,093,806
Purchased services	5,102,755	-	5,102,755
Repairs and replacements	5,037,842	16,017	5,053,859
Depreciation and amortization	10,684,417	-	10,684,417
Insurance	3,521,823	-	3,521,823
Rental expense	1,087,852	-	1,087,852
Other	7,413,259	10,741	7,424,000
Total operating expenses	<u>\$ 186,227,726</u>	<u>\$ 26,758</u>	<u>\$ 186,254,484</u>
Income (loss) from operations	<u>\$ 6,837,984</u>	<u>\$ (7,280)</u>	<u>\$ 6,830,704</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Contributions	\$ 421,597	\$ -	\$ 421,597
Interest income	1,176,436	105	1,176,541
Interest expense	(1,551,332)	-	(1,551,332)
Loss on asset disposal	(102,522)	-	(102,522)
Increase in net equity of investees	408,834	-	408,834
Total nonoperating revenues (expenses)	<u>\$ 353,013</u>	<u>\$ 105</u>	<u>\$ 353,118</u>
Change in net assets, before income tax	\$ 7,190,997	\$ (7,175)	\$ 7,183,822
<b>BENEFIT FOR INCOME TAXES</b>	<u>1,067,843</u>	<u>-</u>	<u>1,067,843</u>
Change in net assets	\$ 8,258,840	\$ (7,175)	\$ 8,251,665
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>97,687,931</u>	<u>27,792</u>	<u>97,715,723</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 105,946,771</u>	<u>\$ 20,617</u>	<u>\$ 105,967,388</u>

**CITY OF STERLING**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ending April 30, 2012

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 5/1/10-4/30/11 (C)	Year 5/1/11-4/30/12 (D)	Year 5/1/10-4/30/11 (E)	Year 5/1/11-4/30/12 (F)			
US Environmental Protection Agency - Office of Solid Waste & Emergency Response								
Passed Through Illinois Environmental Protection Agency								
2012 - Recovery-Brownsfields Assess. & Cleanup Coop.	66.818	0	34,743	0	34,743	0	34,743	51,894
2011 - Recovery-Brownsfields Assess. & Cleanup Coop.	66.818	1,000,000	0	1,000,000	0	0	1,000,000	0
2011 - Recovery-Brownsfields Assess. & Cleanup Coop.	66.818	5,750	0	5,750	0	0	5,750	20,000
US Department of Justice - Bureau of Justice Assistance								
Passed Through Illinois Criminal Justice Information Authority								
2012 - Edward Byrne Memorial Justice Assistance Grant Program	16.738	0	83,370	0	83,370	0	83,370	67,220
2011 - Edward Byrne Memorial Justice Assistance Grant Program	16.738	67,220	0	67,220	0	0	67,220	51,000
2011 - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to all States	16.803	38,552	0	38,552	0	0	38,552	25,245
US Department of Transportation - National Highway Traffic Safety Administration								
Passed Through Illinois Department of Transportation								
2012 - Sustained Traffic Enforcement Program (STEP)	20.602	0	17,317	0	17,317	0	17,317	18,000
2011 - Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	7,660	0	7,660	0	0	7,660	7,500
2011 - State and Community Highway Safety Grants	20.600	7,499	0	7,499	0	0	7,499	7,500
US Department of Housing and Urban Development								
2012 - Neighborhood Stabilization Program 2 Grant (M)	14.256	0	1,846,941	0	1,846,941	0	1,846,941	1,600,000
2011 - Neighborhood Stabilization Program 2 Grant	14.256	237,709	0	237,709	0	0	237,709	1,404,985
<b>TOTAL FEDERAL AWARDS</b>		1,364,390	1,982,371	1,364,390	1,982,371	0	3,346,761	3,253,344

• (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**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ending April 30, 2012**

**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

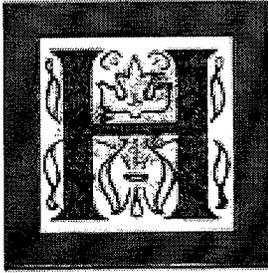
**IDENTIFICATION OF MAJOR PROGRAMS:**

CFDA NUMBER(S)	NAME OF FEDERAL PROGRAM or CLUSTER
14.256	Neighborhood Stabalization Program 2 Grant

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, 2012, and have issued our report thereon dated October 3, 2012. 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  
October 3, 2012