

CITY OF STERLING, ILLINOIS

ANNUAL FINANCIAL REPORT

Year Ended April 30, 2014

CITY OF STERLING, ILLINOIS
APRIL 30, 2014
TABLE OF CONTENTS

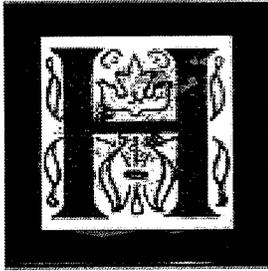
	<u>Page</u> <u>Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	4 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6 - 15
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Net Position - Proprietary Funds	22
Combined Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund Types	23
Combined Statement of Cash Flows - All Proprietary Fund Types	24
Statement of Fiduciary Net Position - Fiduciary Funds	25
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	26
Notes to Basic Financial Statements	27 - 78

CITY OF STERLING, ILLINOIS
APRIL 30, 2014
TABLE OF CONTENTS

	<u>Page</u> <u>Number</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	79
General Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	80 - 82
Capital Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	83
Municipal Coliseum Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	84
2012 CGH Medical Center Bond Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	85
CBD Tax Increment Allocation Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Deficit - Budget and Actual	86
Lincolnway-Lynn Tax Increment Allocation Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual	87
Rock River Tax Increment Allocation Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Deficit - Budget and Actual	88
Notes to Required Supplementary Information	89

CITY OF STERLING, ILLINOIS
APRIL 30, 2014
TABLE OF CONTENTS

	<u>Page</u> <u>Number</u>
SUPPLEMENTARY INFORMATION	
SPECIAL REVENUE AND CAPITAL PROJECT FUNDS	
Non-Major Funds	
Combining Balance Sheet	90
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	91
FIDUCIARY FUNDS	
Combining Statement of Plan Net Position - Pension Trust Funds	92
Combining Statement of Changes in Plan Net Position - Pension Trust Funds	93
COMPONENT UNITS	
Combining Statement of Net Position – Component Units	94
Combining Statement of Revenue, Expenses, and Changes in Net Position -- Component Units	95
OTHER INFORMATION	
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE OF ILLINOIS PUBLIC ACT 85-1142	96



HOPKINS & ASSOCIATES
Certified Public Accountants

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

1301 Peoria St.
Peru, IL 61354

726 South Main St.
Princeton, IL 61356

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Sterling
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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the CGH Medical Center, a discretely presented component unit, which represents 99.9 percent of the assets, net position 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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.

Unqualified Opinion

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-15, the retirement plan information on page 79, the budgetary comparison information included on pages 80-88, and the Notes to Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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. We have applied certain limited procedures to the information provided in the management's discussion and analysis on pages 6-15 and the retirement plan information provided on page 79 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information included in the management's discussion and analysis or the retirement plan information provided on page 79 because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling's basic financial statements. The information presented on pages 90-95 detailed as *Supplementary Information* in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *Supplementary Information* is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

The *Required Supplementary Information*, except for the management's discussion and analysis and the retirement plan information provide on page 79, and *Supplementary Information* have 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules identified above as *Required Supplementary Information*, except the management's discussion and analysis and the retirement information provided on page 79, and *Supplementary Information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

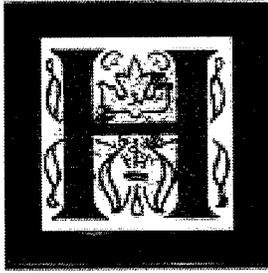
We have also issued our report dated September 18, 2014, on the City of Sterling's compliance with State of Illinois Public Act 85-1142, see page 96. The purpose of that report is to describe the scope of our testing on compliance with Subsection (q) of Illinois Compiled Statutes 65 of (ILCS) 5/11-74.4-3 of the Illinois' Tax Increment Redevelopment Allocation Act (Illinois Public Act 85-1142).

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of the City of Sterling' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sterling' internal control over financial reporting and compliance.

Hopkins & Assoc.

Granville, Illinois
September 18, 2014



HOPKINS & ASSOCIATES
Certified Public Accountants

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

1301 Peoria St.
Peru, IL 61354

726 South Main St.
Princeton, IL 61356

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

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

We have audited, in accordance with the 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 Generally of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sterling (the City) as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 18, 2014. The financial statements were found to be fairly stated.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hopkins & Assoc.

Granville, Illinois
September 18, 2014

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, 2014. 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 \$35,627,091 (net position). Of this amount, \$13,973,531 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$808,877 from the prior year. The net position of the City's business-type activities increased by \$178,959, or 1.6%, and the net position of the City's governmental activities increased by \$629,918, or 2.7%.
- In the City's governmental activities, revenues increased \$610,103, or 3.8%, and expenses increased \$951,486, or 6.3%.
- In the City's business-type activities, revenues decreased \$49,624, or 1.7%, and expenses increased \$107,822, or 4.2%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,404,958, or 46.5% 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 Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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-one 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, 2012 CGH Medical Center Board 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 fourteen governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in these financial statements.

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

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

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

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

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

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

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

Financial Analysis of the City as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$35,627,091 at the close of the most recent fiscal year. This analysis focuses on the net position and changes in net position of the City's governmental and business-type activities, as summarized in the following tables.

The largest portion of the City's net position (52.4%) 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 Position
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2013 - FY 2014
Current and other assets	\$ 47.5	\$ 53.2	\$ 4.4	\$ 4.1	\$ 51.9	\$ 57.3	-9.4%
Capital assets	24.9	23.4	8.4	8.7	33.3	32.1	3.7%
Total assets	<u>\$ 72.4</u>	<u>\$ 76.6</u>	<u>\$ 12.8</u>	<u>\$ 12.8</u>	<u>\$ 85.2</u>	<u>\$ 89.4</u>	-4.7%
Long-term liabilities outstanding	\$ 40.1	\$ 45.4	\$ 1.1	\$ 1.3	\$ 41.2	\$ 46.7	-11.8%
Other liabilities	8.2	7.8	0.2	0.2	8.4	8.0	5.0%
Total liabilities	<u>\$ 48.3</u>	<u>\$ 53.2</u>	<u>\$ 1.3</u>	<u>\$ 1.5</u>	<u>\$ 49.6</u>	<u>\$ 54.7</u>	-9.3%
Net position:							
Invested in capital assets, net of debt	\$ 11.4	\$ 9.1	\$ 7.3	\$ 7.4	\$ 18.7	\$ 16.5	13.3%
Restricted	3.0	5.1	-	-	3.0	5.1	-41.2%
Unrestricted	9.7	9.2	4.2	3.9	13.9	13.1	6.1%
Total net position	<u>\$ 24.1</u>	<u>\$ 23.4</u>	<u>\$ 11.5</u>	<u>\$ 10.4</u>	<u>\$ 35.6</u>	<u>\$ 34.7</u>	2.6%

An additional portion of the City's net position (8.3%) represents resources that are subject to external restrictions on how they may be used. There was a decrease of \$2,141,610 in restricted net position reported in connection with the City's governmental funds. A majority of this decrease is due to the decrease in restricted net position in the Municipal Coliseum Fund. The majority of the Coliseum remodel project was completed in FY14, which was what a majority of the restricted net position was for in FY13.

The remaining balance of *unrestricted net position* (\$13,971,620, or 39.2% of total net position) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$893,015 in unrestricted net position reported in connection with the City's funds. This increase in unrestricted net position is mainly due to a decrease in restricted net position from the prior year for the Coliseum remodel project.

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

The City's net position increased by \$808,877 during the current fiscal year.

Condensed Statement of Activities
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2013 - FY 2014
Revenues:							
Program revenues:							
Charges for services	\$ 1.8	\$ 1.8	\$ 2.7	\$ 2.7	\$ 4.5	\$ 4.5	0.0%
Operating grants and contributions	0.3	0.3	-	-	0.3	0.3	0.0%
Capital grants and contributions	0.3	0.5	-	-	0.3	0.5	-40.0%
General revenues:							
Property taxes	4.4	4.2	-	-	4.4	4.2	4.8%
Other taxes	7.6	7.5	-	-	7.6	7.5	1.3%
Other	2.2	0.4	0.2	0.2	2.4	0.6	300.0%
Total revenues	<u>16.6</u>	<u>14.7</u>	<u>2.9</u>	<u>2.9</u>	<u>19.5</u>	<u>17.6</u>	10.8%
Program expenses:							
General government	3.0	2.7	-	-	3.0	2.7	11.1%
Public safety	4.9	4.6	-	-	4.9	4.6	6.5%
Public works and transportation	2.8	3.0	-	-	2.8	3.0	-6.7%
Community development	1.2	1.4	-	-	1.2	1.4	-14.3%
Culture and recreation	0.7	0.7	-	-	0.7	0.7	0.0%
Other	2.0	1.8	-	-	2.0	1.8	11.1%
Interest on long-term debt	1.4	0.8	-	-	1.4	0.8	75.0%
Sewer	-	-	1.7	1.6	1.7	1.6	6.2%
Solid waste	-	-	1.0	1.0	1.0	1.0	0.0%
Total expenses	<u>16.0</u>	<u>15.0</u>	<u>2.7</u>	<u>2.6</u>	<u>18.7</u>	<u>17.6</u>	6.2%
Change in net position	0.6	(0.3)	0.2	0.3	0.8	-	100.0%
Net position, beginning of year, as restated	<u>23.6</u>	<u>23.6</u>	<u>11.2</u>	<u>11.1</u>	<u>34.8</u>	<u>34.7</u>	0.3%
Net position, end of year	<u>\$ 24.2</u>	<u>\$ 23.3</u>	<u>\$ 11.4</u>	<u>\$ 11.4</u>	<u>\$ 35.6</u>	<u>\$ 34.7</u>	2.6%

Governmental activities increased the City's net position by \$629,918. Key elements of this increase are as follows:

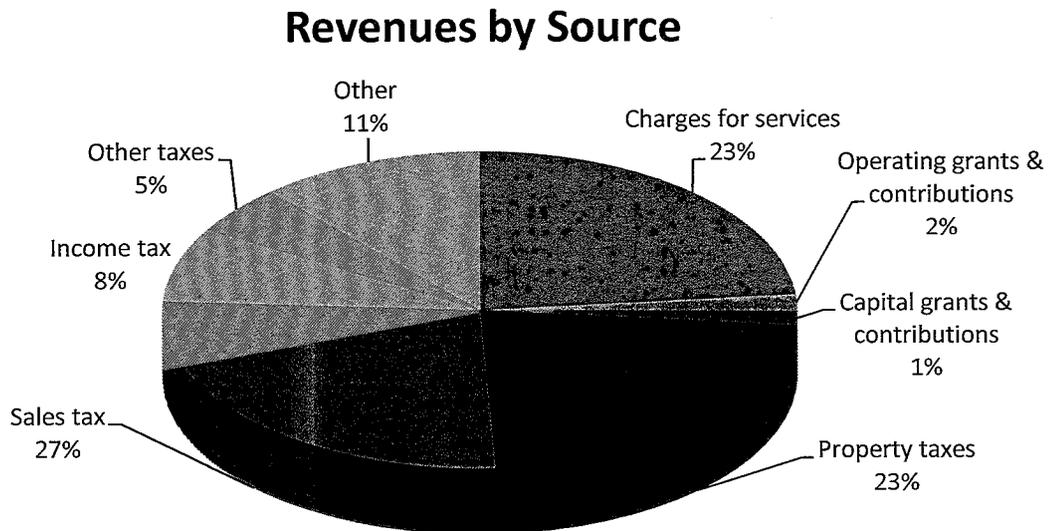
- Governmental revenues increased by approximately 12.6%. This increase was mainly due to the decrease in losses on sale of the houses for the Neighborhood Stabilization Program II Grant.

- Governmental expenses increased by approximately 6.3%. This increase is comprised of the following:
 - Increase in expenditures for the long-term debt of \$533,851, or 63.7% due to the issuance of \$30,370,000 of General Obligation Refunding Bonds for CGH Medical Center in the fiscal year ended April 30, 2013.
 - Increase in expenditures for insurance benefits in the Internal Service Fund of \$327,536, or 28.8%.
 - Increase in contributions to the police and fire pension plans of \$190,274, or 22.1%.

Business-type activities increased the City’s net position by \$178,959. Key elements of this increase are as follows:

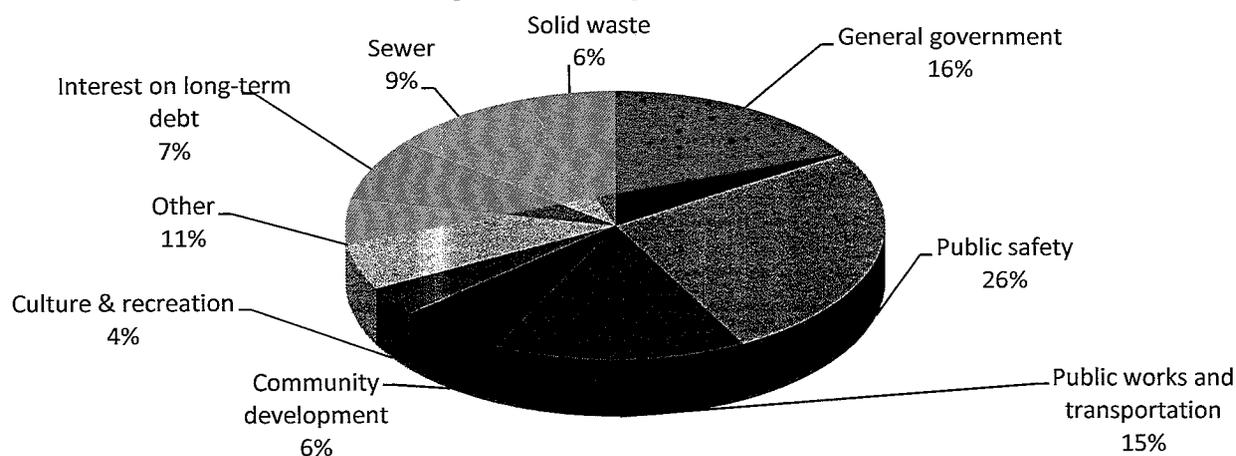
- Business-type revenues decreased by approximately 1.7%. This decrease is mainly related to the 54.9% decrease in investment income.
- Business-type expenses increased by approximately 4.2%, which is mainly due to the increase in operating expense of the Sewer Fund of 6.0%.

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



The City receives approximately 73% of its total revenues from sales tax, charges for services, and property taxes. The remaining 27% of revenues are derived from income and other taxes, operating and capital grants and contributions, and other revenues.

Expenses by Function



During the current fiscal year, 57% of the City's expenses were for public safety, public works and transportation, and general government. Expenses for sewer operations, solid waste, community development, interest expense and other activities were between 6% and 11% of total costs, while culture and recreation made up the bottom 4% 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 \$7,972,375, a decrease of \$2,173,220 in comparison with the prior year. This decrease is mainly attributable to the large net losses in the Capital Fund and the Municipal Coliseum Fund. Approximately 23% of the total governmental fund balances amount (\$1,846,884) 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 \$4,404,958, while the total fund balance reached \$5,066,824. 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 46.5% of total General Fund expenditures, while total fund balance represents 53.5% of that same amount.

The fund balance of the City's General Fund decreased by \$52,782 during the current fiscal year. A large component of this decrease is the lower than expected amounts of income tax and State replacement taxes, which were \$103,094 less than expected.

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 position of the Sewer Fund at the end of the year amounted to \$4,089,383, and those for the Solid Waste Fund amounted to \$155,996. The total growth in net assets for both funds was \$156,651 and \$22,308, 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 \$167,997 (or 1.8% increase in appropriations) and can be briefly summarized as follows:

- \$18,069 in decreases in general government activities (mainly due to a decrease in salaries)
- \$248,170 in increases in public safety (mainly due to increases in overtime and equipment in fire services)
- \$8,316 in miscellaneous increases for public works and transportation
- \$12,866 in miscellaneous decreases in community development activities
- \$58,832 in decreases for other expenditures (mainly due to a decrease in IT improvements)
- \$1,278 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, 2014, amounts to \$33,283,017 (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 3.8% (a 6.5% increase for governmental activities and a 3.4% decrease for business-type activities).

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

- A curb and gutter slipform paver was purchased by the Public Works Department at a cost of \$119,625.
- The Coliseum remodel project was completed during the fiscal year. Expenditures for the remodel during the fiscal year ending April 30, 2014 totaled \$1,675,049. Total expenditures since the beginning of the project were \$6,088,888.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2013 - FY 2014
Land	\$ 1.1	\$ 1.1	\$ 0.1	\$ 0.1	\$ 1.2	\$ 1.2	0.0%
Construction in progress	0.7	4.8	0.2	0.1	0.9	4.9	-81.6%
Buildings and equipment	13.0	6.9	7.1	7.1	20.1	14.0	43.6%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	<u>25.3</u>	<u>25.0</u>	<u>10.9</u>	<u>10.9</u>	<u>36.2</u>	<u>35.9</u>	0.8%
Subtotal	40.9	38.6	18.3	18.2	59.2	56.8	4.2%
Less: accumulated depreciation	<u>16.0</u>	<u>15.2</u>	<u>9.9</u>	<u>9.5</u>	<u>25.9</u>	<u>24.7</u>	4.9%
Total	<u>\$ 24.9</u>	<u>\$ 23.4</u>	<u>\$ 8.4</u>	<u>\$ 8.7</u>	<u>\$ 33.3</u>	<u>\$ 32.1</u>	3.7%

Long-term debt. At the end of the current fiscal year, the City had \$41,228,454 in bonds and notes outstanding, which is a decrease of \$5,426,215, or 11.6%, from the prior year.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2013 - FY 2014
Bonds payable	\$ 39.6	\$ 44.8	\$ -	\$ -	\$ 39.6	\$ 44.8	-11.6%
Loans payable	-	0.1	1.1	1.2	1.1	1.3	-15.4%
Intergovernmental agreement	0.3	0.3	-	-	0.3	0.3	0.0%
Redevelopment agreements	<u>0.2</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>	<u>0.2</u>	0.0%
Total	<u>\$ 40.1</u>	<u>\$ 45.4</u>	<u>\$ 1.1</u>	<u>\$ 1.2</u>	<u>\$ 41.2</u>	<u>\$ 46.6</u>	-11.6%

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 \$14,789,344, which is significantly in excess of the City’s outstanding general obligation debt of \$23,255.

Economic Factors and Next Year’s Budgets and Rates

The City’s Council and staff considered many factors while preparing the fiscal year 2015 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 2015 fiscal year are \$10,457,305, an increase of 1.7% from the final fiscal year 2014 budget of \$10,282,913. Small increases in property and sales taxes are expected to cause this increase. The City will use these increases in revenue to finance programs that are currently offered and the expected impact of inflation on program costs.

Budgeted expenditures in the General Fund are expected to increase \$125,249, or approximately 1.2%, to \$10,522,895. The largest increment of this increase is as follows:

- Pension contributions are expected to increase by \$166,807, or 133.2% of the budgeted expected increase.

If these estimates are realized, the City's budgetary General Fund balance is expected to decrease by \$65,590 by the close of fiscal year 2015.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF STERLING, ILLINOIS
STATEMENT OF NET POSITION
April 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash	\$ 852,915	\$ 212,362	\$ 1,065,277	\$ 22,403,084
Restricted cash	-	71,655	71,655	-
Investments	7,324,433	3,447,043	10,771,476	36,005,581
Taxes receivable	4,584,329	-	4,584,329	-
Intergovernmental receivables	1,649,841	9,707	1,659,548	-
Accounts receivable (net of allowance for uncollectibles)	6,553,776	653,815	7,207,591	32,069,368
Notes receivable (net of allowance for uncollectibles)	105,783	-	105,783	-
Interest receivable	52,293	31,749	84,042	162,538
Other receivables	-	-	-	712,562
Estimated third-party payor settlements	-	-	-	1,276,642
Due from unconsolidated investees	-	-	-	150,407
Inventories	63,979	10,589	74,568	2,691,571
Prepaid expenses	-	-	-	2,001,623
Net pension asset	31,546	-	31,546	-
Capital assets:				
Land and construction in progress	1,755,860	313,295	2,069,155	-
Infrastructure, net	13,445,130	-	13,445,130	-
Other capital assets, net	9,688,135	8,080,597	17,768,732	76,318,389
Assets limited as to use	-	-	-	3,108,125
Due from CGH Medical Center - bond issue	25,995,000	-	25,995,000	-
Other assets	271,181	-	271,181	1,633,784
Net equity in unconsolidated investees	-	-	-	5,127,106
Total assets	<u>\$ 72,374,201</u>	<u>\$ 12,830,812</u>	<u>\$ 85,205,013</u>	<u>\$ 183,660,780</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets and deferred outflows of resources	<u>\$ 72,374,201</u>	<u>\$ 12,830,812</u>	<u>\$ 85,205,013</u>	<u>\$ 183,660,780</u>
LIABILITIES				
Accounts payable	\$ 815,224	\$ 115,742	\$ 930,966	\$ 4,167,491
Claims payable	148,359	-	148,359	-
Accrued malpractice	-	-	-	978,469
Accrued payroll	233,949	23,201	257,150	11,863,869
Accrued interest	67,317	6,395	73,712	-
Deposits	22,077	9,932	32,009	-
Estimated third-party payor settlements	-	-	-	8,248,781
Other current liabilities	-	-	-	4,106,120
Accrued compensated absences	323,694	36,271	359,965	-
Other postemployment benefits obligation	1,765,076	-	1,765,076	-
Long-term liabilities:				
Due within one year	3,163,367	167,716	3,331,083	3,159,693
Due in more than one year	36,979,356	918,015	37,897,371	26,760,873
Total liabilities	<u>\$ 43,518,419</u>	<u>\$ 1,277,272</u>	<u>\$ 44,795,691</u>	<u>\$ 59,285,296</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 4,815,234</u>	<u>\$ -</u>	<u>\$ 4,815,234</u>	<u>\$ -</u>
Deferred inflows - property taxes	<u>\$ 4,815,234</u>	<u>\$ -</u>	<u>\$ 4,815,234</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 11,375,869	\$ 7,308,161	\$ 18,684,030	\$ 46,397,823
Restricted for:				
Special revenue	562,458	-	562,458	-
Non-spendable - inventory and prepaid expenses	63,979	-	63,979	-
Debt service	44	-	44	-
Health development	-	-	-	3,108,125
Capital projects	2,344,960	-	2,344,960	-
Unrestricted	9,726,241	4,245,379	13,971,620	74,869,536
Total net position	<u>\$ 24,073,551</u>	<u>\$ 11,553,540</u>	<u>\$ 35,627,091</u>	<u>\$ 124,375,484</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 72,407,204</u>	<u>\$ 12,830,812</u>	<u>\$ 85,238,016</u>	<u>\$ 183,660,780</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, 2014

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Change in Net Position			Component Unit
	Expenses	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government Business-Type Activities		Total	
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities		
Primary government								
Governmental activities:								
General government	\$ 3,000,639	\$ 1,498,508	\$ 68,516	\$ -	\$ (1,433,615)	\$ -	\$ (1,433,615)	\$ -
Public safety	4,856,163	1,794,737	98,731	48,416	(4,529,543)	-	(4,529,543)	-
Public works and transportation	2,840,131	-	-	-	(2,840,131)	-	(2,840,131)	-
Community development	1,184,561	120,379	63,646	184,838	(815,698)	-	(815,698)	-
Culture and recreation	673,331	15,186	102,581	50,158	(505,406)	-	(505,406)	-
Other	2,048,060	-	-	-	(2,048,060)	-	(2,048,060)	-
Interest on long-term debt	1,372,310	-	-	-	(1,372,310)	-	(1,372,310)	-
Total governmental activities	\$ 15,975,195	\$ 1,813,546	\$ 333,474	\$ 283,412	\$ (13,544,763)	\$ -	\$ (13,544,763)	\$ -
Business-type activities:								
Sewer	\$ 1,658,565	\$ 1,773,726	\$ -	\$ -	\$ -	\$ 115,161	\$ 115,161	\$ -
Solid waste	1,010,512	973,664	-	-	-	(36,848)	(36,848)	-
Total business-type activities	\$ 2,669,077	\$ 2,747,390	\$ -	\$ -	\$ -	\$ 78,313	\$ 78,313	\$ -
Total primary government	\$ 18,644,272	\$ 4,560,936	\$ 333,474	\$ 283,412	\$ (13,544,763)	\$ 78,313	\$ (13,466,450)	\$ -
Component unit								
CGH Medical Center	\$ 190,140,399	\$ 194,272,022	\$ 463,371	\$ -	\$ -	\$ -	\$ 4,594,994	\$ (12,693.0)
Foreign Fire Insurance Board	12,693	-	-	-	-	-	-	-
General Revenues:								
Property taxes, levied for general purposes			\$ -	\$ -	\$ 4,400,860	\$ -	\$ 4,400,860	\$ -
Sales tax					5,211,172	-	5,211,172	-
Personal property replacement tax					463,961	58,822	522,783	-
Income tax and surcharge					1,467,811	-	1,467,811	-
Fire protection revenue					274,414	-	274,414	-
Motor fuel tax					447,923	-	447,923	-
Investment income					36,848	65,700	102,548	-
Increase in net equity in unconsolidated investees					-	-	-	1,359,678
Other					1,894,782	2,291	1,897,073	221,623
Special item - gain (loss) on disposal of asset					(49,590)	333	(49,257)	5,785,450
Transfers - internal activity					26,500	(26,500)	-	(221,614)
Total general revenues and transfers					\$ 14,174,681	\$ 100,646	\$ 14,275,327	\$ 7,145,137
Change in net position					\$ 629,918	\$ 178,959	\$ 808,877	\$ 11,727,438
Prior period adjustment					100,881	-	100,881	-
NET POSITION, BEGINNING OF YEAR					23,342,752	11,374,581	34,717,333	112,648,046
NET POSITION, END OF YEAR					\$ 24,073,551	\$ 11,553,540	\$ 35,627,091	\$ 124,375,484

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, 2014

	2012									
	General Fund	Capital Fund	Municipal Coliseum Fund	CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	Lincolnway-Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds	
ASSETS										
Cash	\$ 21,244	\$ 5,156	\$ -	\$ 44	\$ 7,437	\$ -	\$ -	\$ 387,675	\$ 421,556	\$ -
Investments	1,632,710	1,390,400	-	-	18,237	-	2,128,765	1,726,137	6,896,249	-
Receivables										
Taxes			78,788	-	311,835	159,610	521,838	884,858	4,584,329	-
Intergovernmental			2,365	-	20,000	-	-	212,593	1,649,841	-
Accounts receivable			-	-	-	-	10,868	15,508	57,124	-
Notes			-	-	-	-	-	105,783	105,783	-
Interest			-	-	-	-	-	38,525	46,995	-
Inventory			-	-	-	-	-	-	63,979	-
Due from other funds			-	-	550,000	-	-	1,032,401	5,008,615	-
TOTAL ASSETS	\$ 8,133,648	\$ 2,487,556	\$ 81,153	\$ 44	\$ 907,509	\$ 159,610	\$ 2,661,471	\$ 4,403,480	\$ 18,834,471	\$ -
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL ASSETS AND DEF. OUTFLOWS	\$ 8,133,648	\$ 2,487,556	\$ 81,153	\$ 44	\$ 907,509	\$ 159,610	\$ 2,661,471	\$ 4,403,480	\$ 18,834,471	\$ -
LIABILITIES										
Accounts payable	\$ 106,044	\$ 181,872	\$ 350,373	\$ -	\$ 5,010	\$ -	\$ 95,204	\$ 76,721	\$ 815,224	\$ -
Accrued payroll	212,878	-	2,509	-	-	-	-	18,562	233,949	-
Deposits	3,600	-	-	-	-	-	-	18,477	22,077	-
Due to other funds	-	-	302,444	-	852,500	89,814	3,288,722	475,135	5,008,615	-
Total liabilities	\$ 322,522	\$ 181,872	\$ 655,326	\$ -	\$ 857,510	\$ 89,814	\$ 3,383,926	\$ 588,895	\$ 6,079,865	\$ -
DEFERRED INFLOWS OF RESOURCES										
Defered Inflows - Property Taxes	\$ 2,744,302	\$ 81,000	\$ 78,788	\$ -	\$ 311,835	\$ 159,610	\$ 521,838	\$ 917,861	\$ 4,815,234	\$ -
Total deferred inflows	\$ 2,744,302	\$ 81,000	\$ 78,788	\$ -	\$ 311,835	\$ 159,610	\$ 521,838	\$ 917,861	\$ 4,815,234	\$ -
FUND EQUITY										
Fund balance	\$ 547,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 508,283	\$ 1,056,218	\$ -
Nonspendable	113,931	-	-	44	-	-	-	2,730,614	2,844,589	-
Restricted	-	2,224,684	-	-	-	-	-	-	2,224,684	-
Committed	-	-	(652,961)	-	(261,836)	(89,814)	(1,244,293)	(309,170)	1,846,884	-
Unassigned	4,404,958	-	(652,961)	-	(261,836)	(89,814)	(1,244,293)	(309,170)	1,846,884	-
Total fund equity	\$ 5,066,824	\$ 2,224,684	\$ (652,961)	\$ 44	\$ (261,836)	\$ (89,814)	\$ (1,244,293)	\$ 2,929,727	\$ 7,972,375	\$ -
TOTAL LIABILITIES, DEF. INFLOWS, AND FUND EQUITY	\$ 8,133,648	\$ 2,487,556	\$ 81,153	\$ 44	\$ 907,509	\$ 159,610	\$ 2,661,471	\$ 4,436,483	\$ 18,867,474	\$ -

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

CITY OF STERLING, ILLINOIS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
Year Ended April 30, 2014

Total governmental fund balances \$ 7,972,375

Amounts reported for governmental activities in the statement of net position 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 \$15,973,520 24,889,125

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	5,437,107
Advance for theater renovation loan	1,054,750
Advance of bond proceeds to CGH Medical Center	25,995,000
Net pension asset	31,546

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

General obligations bonds payable	(36,350,000)
Tax increment bonds payable	(3,135,000)
Special service area bonds payable	(160,406)
Redevelopment agreements payable	(178,000)
Notes payable	(319,317)
Other postemployment benefit obligation	(1,765,076)
Compensated absences	(323,694)

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. (67,317)

Bond issue costs are reported as expenditures in the governmental funds. The cost is \$441,189 and accumulated amortization is \$170,008. 271,181

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 position:

Assets	\$ 869,636	
Liabilities	<u>(148,359)</u>	<u>721,277</u>

Total net position - governmental activities **\$ 24,073,551**

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, 2014

	General Fund	Capital Fund	2012				Lincolnway-		Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
			Municipal Coliseum Fund	CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	Lynn Tax Increment Allocation Fund	Lynn Tax Increment Allocation Fund				
								Fund			
REVENUES											
Taxes	\$ 6,366,419	\$ 1,010,846	\$ 80,129	\$ -	\$ 425,918	\$ 154,010	\$ 503,227	\$ 1,071,483	\$ 9,612,032		
Intergovernmental	2,235,557	-	14,329	-	-	-	5,313	741,043	2,996,242		
Licenses and permits	709,329	-	-	-	-	-	-	-	709,329		
Fines and penalties	179,473	-	-	-	-	-	-	-	179,473		
Charges for services	66,763	13,749	20,867	-	-	-	-	232,015	333,394		
Investment income	78,603	(69,501)	31	-	2,046	49	234	16,467	27,929		
Donations	75,332	50,400	-	-	-	-	-	149,021	274,753		
Other	419,044	167,791	-	5,271,793	-	461,663	10,868	133,623	6,464,782		
Total revenues	\$ 10,130,520	\$ 1,173,285	\$ 115,356	\$ 5,271,793	\$ 427,964	\$ 615,722	\$ 519,642	\$ 2,343,652	\$ 20,597,934		

EXPENDITURES										
Current										
General government	\$ 429,063	\$ 350	\$ 180,542	\$ -	\$ -	\$ -	\$ -	\$ 561,511	\$ 1,171,466	
Public safety	4,534,476	-	-	-	-	-	-	8,141	4,542,617	
Public works and transportation	1,127,703	593,694	-	-	-	-	-	268,133	1,989,530	
Community development	275,397	68,682	-	-	1,062	155,438	464,341	193,658	1,158,578	
Culture and recreation	-	-	-	-	-	-	-	693,747	693,747	
Other	2,967,464	-	-	318	-	-	-	-	2,967,782	
Debt service										
Principal	22,805	-	-	4,375,000	25,000	195,000	205,000	440,287	5,263,092	
Interest	1,280	-	157,521	896,475	-	266,663	7,616	45,932	1,375,487	
Capital outlay	108,420	926,273	1,854,681	-	31,730	-	-	103,915	3,025,019	
Total expenditures	\$ 9,466,608	\$ 1,588,999	\$ 2,192,744	\$ 5,271,793	\$ 57,792	\$ 617,101	\$ 676,957	\$ 2,315,324	\$ 22,187,318	

Excess (deficiency) of revenues over expenditures \$ 663,912 \$ (415,714) \$ (2,077,388) \$ - \$ 370,172 \$ (1,379) \$ (157,315) \$ 28,328 \$ (1,589,384)

OTHER FINANCING SOURCES (USES)										
Advance for theater renovation	\$ -	\$ (698,566)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (698,566)	
Sale of property	7,306	36	1,441	-	-	-	-	79,447	88,230	
Operating transfers in	26,500	459,500	825,000	-	16,000	-	-	-	1,327,000	
Operating transfers out	(750,500)	(550,000)	-	-	-	-	-	-	(1,300,500)	
Total other financing sources (uses)	\$ (716,694)	\$ (789,030)	\$ 826,441	\$ -	\$ 16,000	\$ -	\$ -	\$ 79,447	\$ (583,836)	

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses \$ (52,782) \$ (1,204,744) \$ (1,250,947) \$ - \$ 386,172 \$ (1,379) \$ (157,315) \$ 107,775 \$ (2,173,220)

FUND BALANCE (DEFICIT), BEGINNING OF YEAR 5,119,606 3,429,428 597,986 44 (648,008) (88,435) (1,086,978) 2,821,952 10,145,595

FUND BALANCE (DEFICIT), END OF YEAR \$ 5,066,824 \$ 2,224,684 \$ (652,961) \$ 44 \$ (261,836) \$ (89,814) \$ (1,244,293) \$ 2,929,727 \$ 7,972,375

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 TO CHANGES IN NET POSITION OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended April 30, 2014

Net change in fund balances - total governmental funds \$ (2,173,220)

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

Recording of long-term receivables creates an expenditure to governmental funds in the period issued, but issuing long-term receivables increases long-term assets in the Statement of Net Position. Receipt of payment on the receivable is a revenue in the governmental funds, but the repayment reduces the long-term asset in the Statement of Net Position.

Advance for theater loan	\$ 698,566	
Payments	(195,000)	503,566

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

1,564,346

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

Loss on the sale of capital assets		(137,820)
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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 Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Issuances	\$ -	
Payments	5,263,092	
Payment of CGH Medical Center bonds	(4,375,000)	
Change in compensated absences	16,041	
Change in net pension obligation	9,512	
Accrued interest	<u>3,177</u>	916,822

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.

(24,552)

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 Position		<u>(19,224)</u>
------------------------	--	-----------------

Change in net position of governmental activities \$ 629,918

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 POSITION
PROPRIETARY FUNDS
April 30, 2014

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ 210,994	\$ 1,368	\$ 212,362	\$ 431,359
Restricted cash	71,655	-	71,655	-
Investments	3,445,722	1,321	3,447,043	428,184
Intergovernmental receivable	-	9,707	9,707	-
Accounts receivable	407,018	246,797	653,815	4,795
Accrued interest	31,749	-	31,749	5,298
Due from other funds	17,610	-	17,610	-
Inventory	8,453	2,136	10,589	-
Total current assets	<u>\$ 4,193,201</u>	<u>\$ 261,329</u>	<u>\$ 4,454,530</u>	<u>\$ 869,636</u>
Property and equipment				
Land	\$ 148,598	\$ -	\$ 148,598	\$ -
Utility system	7,129,776	18,981	7,148,757	-
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	164,697	-	164,697	-
	<u>18,262,368</u>	<u>18,981</u>	<u>18,281,349</u>	<u>-</u>
Accumulated depreciation	9,879,864	7,593	9,887,457	-
Total capital assets (net of accumulated depreciation)	<u>\$ 8,382,504</u>	<u>\$ 11,388</u>	<u>\$ 8,393,892</u>	<u>\$ -</u>
Total assets	<u>\$ 12,575,705</u>	<u>\$ 272,717</u>	<u>\$ 12,848,422</u>	<u>\$ 869,636</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets and deferred outflows of resources	<u>\$ 12,575,705</u>	<u>\$ 272,717</u>	<u>\$ 12,848,422</u>	<u>\$ 869,636</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 36,755	\$ 78,987	\$ 115,742	\$ -
Claims payable	-	-	-	148,359
Accrued payroll	20,817	2,384	23,201	-
Overpayments	9,623	309	9,932	-
Accrued vacation	30,228	6,043	36,271	-
Accrued interest	6,395	-	6,395	-
Due to other funds	-	17,610	17,610	-
Current portion of notes payable	167,716	-	167,716	-
Total current liabilities	<u>\$ 271,534</u>	<u>\$ 105,333</u>	<u>\$ 376,867</u>	<u>\$ 148,359</u>
Noncurrent liabilities				
Notes payable (net of current portion)	\$ 918,015	\$ -	\$ 918,015	\$ -
Total noncurrent liabilities	<u>\$ 918,015</u>	<u>\$ -</u>	<u>\$ 918,015</u>	<u>\$ -</u>
Total liabilities	<u>\$ 1,189,549</u>	<u>\$ 105,333</u>	<u>\$ 1,294,882</u>	<u>\$ 148,359</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 7,296,773	\$ 11,388	\$ 7,308,161	\$ -
Unrestricted	4,089,383	155,996	4,245,379	721,277
Total net position	<u>\$ 11,386,156</u>	<u>\$ 167,384</u>	<u>\$ 11,553,540</u>	<u>\$ 721,277</u>
Total liabilities, deferred inflows, and net position	<u>\$ 12,575,705</u>	<u>\$ 272,717</u>	<u>\$ 12,848,422</u>	<u>\$ 869,636</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 POSITION - PROPRIETARY FUND TYPES
Year Ended April 30, 2014

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities -	Governmental Activities - Internal Service Fund
OPERATING REVENUE				
Sewer use and hook-up fees	\$ 1,773,726	\$ -	\$ 1,773,726	\$ -
Solid waste service fees	-	973,664	973,664	-
Employer contributions	-	-	-	1,284,291
Employee contributions	-	-	-	382,228
Other revenue	2,291	-	2,291	-
Total operating revenue	<u>\$ 1,776,017</u>	<u>\$ 973,664</u>	<u>\$ 2,749,681</u>	<u>\$ 1,666,519</u>
OPERATING EXPENSES				
Administration	\$ -	\$ -	\$ -	\$ 221,893
Life insurance premiums	-	-	-	7,668
Waste water treatment plant	599,693	-	599,693	-
Solid waste disposal	-	1,006,716	1,006,716	-
Maintenance	14,849	-	14,849	-
Billing and collection	237,367	-	237,367	-
Non-departmental	412,799	-	412,799	-
Benefit payments	-	-	-	1,465,101
Depreciation	362,071	3,796	365,867	-
Total operating expenses	<u>\$ 1,626,779</u>	<u>\$ 1,010,512</u>	<u>\$ 2,637,291</u>	<u>\$ 1,694,662</u>
Operating income (loss)	<u>\$ 149,238</u>	<u>\$ (36,848)</u>	<u>\$ 112,390</u>	<u>\$ (28,143)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	\$ -	\$ 58,822	\$ 58,822	\$ -
Interest income	114,007	1	114,008	17,132
Net change in fair value of investments	(48,308)	-	(48,308)	(8,213)
Interest expense	(31,786)	-	(31,786)	-
Total nonoperating revenues (expenses)	<u>\$ 33,913</u>	<u>\$ 58,823</u>	<u>\$ 92,736</u>	<u>\$ 8,919</u>
Net income before other financing sources (uses)	<u>\$ 183,151</u>	<u>\$ 21,975</u>	<u>\$ 205,126</u>	<u>\$ (19,224)</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	\$ -	\$ 333	\$ 333	\$ -
Operating transfers out	(26,500)	-	(26,500)	-
Total other financing sources (uses)	<u>\$ (26,500)</u>	<u>\$ 333</u>	<u>\$ (26,167)</u>	<u>\$ -</u>
Change in net position	\$ 156,651	\$ 22,308	\$ 178,959	\$ (19,224)
NET POSITION, BEGINNING OF YEAR	<u>11,229,505</u>	<u>145,076</u>	<u>11,374,581</u>	<u>740,501</u>
NET POSITION, END OF YEAR	<u>\$ 11,386,156</u>	<u>\$ 167,384</u>	<u>\$ 11,553,540</u>	<u>\$ 721,277</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, 2014

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ (17,610)	\$ 17,610	\$ -	\$ 1,666,519
Receipts from customers	1,695,842	920,652	2,616,494	-
Payments to employees	(480,275)	(52,331)	(532,606)	-
Payments to suppliers	(810,101)	(955,891)	(1,765,992)	-
Payments for premiums, claims, and related services	-	-	-	(1,451,762)
Net cash provided by (used in) operating activities	<u>\$ 387,856</u>	<u>\$ (69,960)</u>	<u>\$ 317,896</u>	<u>\$ 214,757</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State replacement tax	\$ -	\$ 60,362	\$ 60,362	\$ -
Operating transfers to other funds	(26,500)	-	(26,500)	-
Net cash provided by (used in) non-capital financing activities	<u>\$ (26,500)</u>	<u>\$ 60,362</u>	<u>\$ 33,862</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on notes payable	\$ (163,123)	\$ -	\$ (163,123)	\$ -
Interest paid on notes payable	(32,648)	-	(32,648)	-
Capital assets acquired	(68,976)	-	(68,976)	-
Proceeds from the sale of capital assets	-	333	333	-
Net cash provided by (used in) capital financing activities	<u>\$ (264,747)</u>	<u>\$ 333</u>	<u>\$ (264,414)</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	\$ (587,442)	\$ -	\$ (587,442)	\$ (14,190)
Proceeds from the sale of investments	560,013	1,829	561,842	101,820
Interest received	112,211	1	112,212	17,060
Net cash provided by (used in) investing activities	<u>\$ 84,782</u>	<u>\$ 1,830</u>	<u>\$ 86,612</u>	<u>\$ 104,690</u>
NET CHANGE IN CASH	<u>\$ 181,391</u>	<u>\$ (7,435)</u>	<u>\$ 173,956</u>	<u>\$ 319,447</u>
CASH, BEGINNING OF YEAR	<u>101,258</u>	<u>8,803</u>	<u>110,061</u>	<u>111,912</u>
CASH, END OF YEAR	<u>\$ 282,649</u>	<u>\$ 1,368</u>	<u>\$ 284,017</u>	<u>\$ 431,359</u>
RECONCILIATION OF OPERATING INCOME TO NET				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 149,238	\$ (36,848)	\$ 112,390	\$ (28,143)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	362,071	3,796	365,867	-
Effects of changes in operating assets and liabilities				
Accounts receivable	(83,607)	(52,444)	(136,051)	215,890
Inventory	(5,881)	(1,495)	(7,376)	-
Due from other funds	(17,610)	-	(17,610)	-
Accounts payable	(16,363)	(14)	(16,377)	-
Claims payable	-	-	-	27,010
Accrued payroll	2,312	360	2,672	-
Overpayments	3,432	(568)	2,864	-
Compensated absences	(5,736)	(357)	(6,093)	-
Due to other funds	-	17,610	17,610	-
	<u>\$ 387,856</u>	<u>\$ (69,960)</u>	<u>\$ 317,896</u>	<u>\$ 214,757</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 POSITION
FIDUCIARY FUNDS
April 30, 2014

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund	Agency Blackhawk Area Task Force Fund
ASSETS			
Cash	\$ 229,536	\$ 1,188	\$ 450,294
Accrued interest receivable	43,095	-	-
Investments, at fair value	<u>24,196,310</u>	<u>-</u>	<u>107,540</u>
TOTAL ASSETS	<u>\$ 24,468,941</u>	<u>\$ 1,188</u>	<u>\$ 557,834</u>
LIABILITIES	<u>\$ 525</u>	<u>-</u>	<u>\$ 10,932</u>
NET POSITION	<u>\$ 24,468,416</u>	<u>\$ 1,188</u>	<u>\$ 546,902</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 CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended April 30, 2014

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund	Agency Blackhawk Area Task Force Fund
ADDITIONS			
Contributions			
Employer	\$ 1,100,972	\$ -	\$ -
Plan members	274,744	-	-
Total contributions	<u>\$ 1,375,716</u>	<u>\$ -</u>	<u>\$ -</u>
Investment income			
Interest earned	\$ 720,758	\$ 1	\$ 577
Net change in fair value	1,375,555	-	-
Total investment income	<u>\$ 2,096,313</u>	<u>\$ 1</u>	<u>\$ 577</u>
Federal forfeiture	\$ -	\$ -	\$ 233,641
State forfeiture	-	-	45,259
Drug fines and restitution	-	-	49,778
Other revenue	332	-	74,040
Total other revenue	<u>\$ 332</u>	<u>\$ -</u>	<u>\$ 402,718</u>
Total additions	<u>\$ 3,472,361</u>	<u>\$ 1</u>	<u>\$ 403,295</u>
DEDUCTIONS			
Administrative	\$ 164,741	\$ -	\$ -
Benefits	2,009,726	-	-
Other	-	-	187,614
Total deductions	<u>\$ 2,174,467</u>	<u>\$ -</u>	<u>\$ 187,614</u>
CHANGE IN NET POSITION	\$ 1,297,894	\$ 1	\$ 215,681
NET POSITION, BEGINNING OF YEAR	<u>23,170,522</u>	<u>1,187</u>	<u>331,221</u>
NET POSITION, END OF YEAR	<u>\$ 24,468,416</u>	<u>\$ 1,188</u>	<u>\$ 546,902</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, 2014

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, 2014

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 Position, 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 position is reported in three parts – net investment in capital assets; 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, 2014

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 position, 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, 2014

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.

The City maintains two enterprise funds, the sewer fund and solid waste fund.

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, the health insurance 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 position and changes in net position and is reported using accounting principles similar to proprietary funds. Fiduciary funds include the police and fire protection pension trust funds, a private purpose trust fund and an agency fund.

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, 2014

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.

2012 CGH Medical Center Fund - This fund is used to account for the issuance and payments on the 2012 CGH Medical Center Bonds. Financing is provided by reimbursement from CGH Medical Center.

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, 2014

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, 2014

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 15, 2013 and was amended on April 21, 2014. 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, 2014

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 Position. 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, 2014

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, 2014 represents installments of the 2012 property taxes which were received during 2013. The 2013

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

PROPERTY TAXES (CONTINUED)

property tax levy has been deferred at April 30, 2014, as it was budgeted for fiscal year 2015.

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 POSITION

Government-wide Statements

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

- a. Net investment in capital assets – 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 position – Consists of net position 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, 2014

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

FUND EQUITY/NET POSITION (CONTINUED)

Government-wide Statements (Continued)

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

Use of Restricted/Unrestricted Net Position

Net position is reported as restricted when constraints placed on net position 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, 2014

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

FUND EQUITY/NET POSITION (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 and Fiduciary Funds

The City's investment policy allows them to invest in any type of security allowed for in Illinois statutes regarding the investment of public funds. In general, the City may invest in obligations of the United States of America or its agencies (or guaranteed by the full faith and credit of the same) and certain time deposits and short-term obligations as defined in the Public Fund Investment Act. At year-end, the carrying amount of the City's cash and deposits was \$1,809,812 and the bank balances totaled \$2,073,436. Cash on hand was \$8,138.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 2. Deposits and Investments (Continued)

Primary Government and Fiduciary Funds (Continued)

At year end, the investment maturities are as follows:

	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	10 or more
Certificates of Deposit	\$ 1,026,707	\$ 145,003	\$ 801,840	\$ 79,864	\$ -
Money Market	2,745,046	2,745,046	-	-	-
U.S. Treasuries	10,541,140	1,559,203	5,757,686	2,517,290	706,961
U.S. Agencies	3,843,777	-	5,793	132,850	3,705,134
IL Treas. Investment	1,272,607	1,272,607	-	-	-
Mutual Funds	10,375,376	10,375,376	-	-	-
Annuities	2,530,757	2,530,757	-	-	-
Stock	2,739,916	2,739,916	-	-	-
	<u>\$ 35,075,326</u>	<u>\$ 21,367,908</u>	<u>\$ 6,565,319</u>	<u>\$ 2,730,004</u>	<u>\$ 4,412,095</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 AAAM 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, 2014, the City had \$1,272,607 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.

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 2. Deposits and Investments (Continued)

Credit Risk (Continued)

liquidity, and in general, avoid speculative instruments. The City's investments in the Illinois Treasurers' Investment Pool maintain a rating of AAAM 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, 2014, 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, 2014, 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, 2014

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2014, was as follows:

	<u>Balance at May 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2014</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,055,361	\$ -	\$ 9,976	\$ 1,045,385
Construction in Progress	4,830,780	2,346,762	6,467,067	710,475
Total capital assets not being depreciated	<u>\$ 5,886,141</u>	<u>\$ 2,346,762</u>	<u>\$ 6,477,043</u>	<u>\$ 1,755,860</u>
Capital Assets being depreciated				
Buildings	\$ 2,016,017	\$ 6,115,438	\$ 68,543	\$ 8,062,912
Equipment	4,855,945	685,388	580,851	4,960,482
Land Improvements	787,920	-	-	787,920
Infrastructure	24,977,936	317,535	-	25,295,471
Total capital assets being depreciated	<u>\$ 32,637,818</u>	<u>\$ 7,118,361</u>	<u>\$ 649,394</u>	<u>\$ 39,106,785</u>
Less accumulated depreciation on for				
Buildings	\$ 739,580	\$ 59,665	\$ 33,809	\$ 765,436
Equipment	3,132,592	330,724	410,945	3,052,371
Land Improvements	289,509	15,863	-	305,372
Infrastructure	11,000,560	849,781	-	11,850,341
Total accumulated depreciation	<u>\$ 15,162,241</u>	<u>\$ 1,256,033</u>	<u>\$ 444,754</u>	<u>\$ 15,973,520</u>
Total capital assets being depreciated, net	<u>\$ 17,475,577</u>	<u>\$ 5,862,328</u>	<u>\$ 204,640</u>	<u>\$ 23,133,265</u>
Governmental activities capital assets, net	<u>\$ 23,361,718</u>	<u>\$ 8,209,090</u>	<u>\$ 6,681,683</u>	<u>\$ 24,889,125</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2014</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in Progress	95,721	68,976	-	164,697
Total capital assets not being depreciated	<u>\$ 244,319</u>	<u>\$ 68,976</u>	<u>\$ -</u>	<u>\$ 313,295</u>
Capital Assets being depreciated				
Buildings and equipment	\$ 7,148,758	\$ -	\$ -	\$ 7,148,758
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,454,559	-	-	5,454,559
Sewer separation work	3,801,298	-	-	3,801,298
Total capital assets being depreciated	<u>\$ 17,968,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,968,055</u>
Less accumulated depreciation for				
Buildings and equipment	\$ 3,940,977	\$ 152,687	\$ -	\$ 4,093,664
Interceptors, mains, and pump stations	1,115,271	26,948	-	1,142,219
Storm sewers	2,017,275	110,061	-	2,127,336
Sewer separation work	2,448,067	76,172	-	2,524,239
Total accumulated depreciation	<u>\$ 9,521,590</u>	<u>\$ 365,868</u>	<u>\$ -</u>	<u>\$ 9,887,458</u>
Total capital assets being depreciated, net	<u>\$ 8,446,465</u>	<u>\$ (365,868)</u>	<u>\$ -</u>	<u>\$ 8,080,597</u>
Business-type activities capital assets, net	<u>\$ 8,690,784</u>	<u>\$ (296,892)</u>	<u>\$ -</u>	<u>\$ 8,393,892</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 3. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 83,160
Public safety	(195,677)
Public works and transport.	844,449
Community Development	3,328
Culture and recreation	(4,268)
Other	80,287
Total depreciation expense	<u>\$ 811,279</u>
Business-type activities:	
Sewer	\$ 362,071
Solid waste	3,797
Total depreciation expense	<u>\$ 365,868</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 \$70,000 per employee and \$1,402,233 in the aggregate. Each participating fund and component unit makes payments to the self-insurance fund. Such payments are displayed on the financial statements as revenues and expenditures/expenses (quasi-external transfers). The City has accrued a liability for claims incurred and reported as well as an estimate of claims incurred but not reported. A reconciliation of the claims liability is as follows:

Claims payable, April 30, 2013	\$ 121,349
Claims incurred	1,465,101
Claims paid	(1,438,091)
Claims payable, April 30, 2014	<u>\$ 148,359</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2014 are summarized as follows:

	<u>Balance at April 30, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2014</u>	<u>Due within 1 year</u>
Governmental activities:					
Bonds payable	\$ 44,814,037	\$ -	\$ 5,168,631	\$ 39,645,406	\$ 3,068,456
Loans payable	46,060	-	22,805	23,255	23,255
Redevelopment agreements	203,000	-	25,000	178,000	25,000
Intergovernmental agrmts	342,718	-	46,656	296,062	46,656
Compensated absences	339,736	-	16,042	323,694	323,694
	<u>\$ 45,745,551</u>	<u>\$ -</u>	<u>\$ 5,279,134</u>	<u>\$ 40,466,417</u>	<u>\$ 3,487,061</u>
Business-type activities:					
Notes payable	\$ 1,248,854	\$ -	\$ 163,123	\$ 1,085,731	\$ 167,716
Compensated absences	42,364	-	6,093	36,271	36,271
	<u>\$ 1,291,218</u>	<u>\$ -</u>	<u>\$ 169,216</u>	<u>\$ 1,122,002</u>	<u>\$ 203,987</u>

Governmental Activities

Bonds Payable

\$1,535,000 General Obligation Refunding Bonds (Alternate Revenue Source) dated September 15, 2005 due in annual installments of \$105,000 to \$160,000 due on March 1 of each year with interest at 2.95% to 3.75% due March 1 and September 1 each year through March 1, 2017. Payments are due as follows:

<u>Year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 150,000	\$ 17,213
2016	155,000	11,812
2017	160,000	6,000
	<u>\$ 465,000</u>	<u>\$ 35,025</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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

\$1,535,000. The ordinance authorizing the bond issue imposed certain conditions on the City as follows:

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

During the 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. The bonds were paid off in the fiscal year ended April 30, 2014.

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:

Year Ending	Principal	Interest
April 30		
2015	\$ 28,456	\$ 9,624
2016	30,163	7,917
2017	31,972	6,107
2018	33,891	4,189
2019	35,924	2,156
	<u>\$ 160,406</u>	<u>\$ 29,993</u>

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

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

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

Year Ending	Principal	Interest
<u>April 30</u>		
2015	\$ 230,000	\$ 119,130
2016	255,000	110,390
2017	280,000	100,700
2018	310,000	90,060
2019	340,000	78,280
2020-2023	1,720,000	170,620
	<u>\$ 3,135,000</u>	<u>\$ 669,180</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:

Year Ending	Principal	Interest
<u>April 30</u>		
2015	\$ -	\$ 3,150
2016	210,000	3,150
	<u>\$ 210,000</u>	<u>\$ 6,300</u>

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

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:

Year Ending	Principal	Interest
April 30		
2015	\$ -	\$ 130,894
2016	200,000	258,937
2017	210,000	252,938
2018	225,000	246,075
2019	235,000	238,133
2020-2024	1,415,000	1,031,525
2025-2029	1,960,000	642,210
2030-2032	1,435,000	111,956
	<u>\$ 5,680,000</u>	<u>\$ 2,912,668</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, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending	Principal	Interest
<u>April 30</u>		
2015	\$ 90,000	\$ 147,900
2016	100,000	146,020
2017	115,000	143,682
2018	120,000	140,709
2019	135,000	137,508
2020-2024	795,000	619,196
2025-2029	1,030,000	458,879
2030-2034	1,315,000	229,852
2035	300,000	12,375
	<u>\$ 4,000,000</u>	<u>\$ 2,036,121</u>

Ordinance 2012-11-32 was passed by the City Council for issuance of Series 2012 General Obligation Refunding Bonds (Alternate Revenue Source) in an amount not to exceed \$33,500,000.

During the fiscal year ended April 30, 2013, the City issued \$30,370,000 of General Obligation Refunding Bonds (Alternate Revenue Source), Series 2012 for the refunding of existing hospital revenue bonds and for new hospital capital expenditures. These bonds are payable solely from revenues generated by CGH Medical Center. The bonds are due in annual installments due on May 1 each year with interest is at 2.00% to 4.00% due May 1 and November 1 each year through November 1, 2022.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending	Principal	Interest
<u>April 30</u>		
2015	\$ 2,570,000	\$ 426,363
2016	2,630,000	801,325
2017	2,695,000	735,575
2018	2,750,000	668,200
2019	2,830,000	585,700
2020-2023	12,520,000	1,279,000
	<u>\$ 25,995,000</u>	<u>\$ 4,496,163</u>

Loans Payable

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, 2014, the balance is \$23,255.

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, 2014, 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, 2014, the balance is \$110,000.

Intergovernmental Agreements

The City entered into an intergovernmental agreement on November 10, 2011 with the State of Illinois which included a note for \$389,374 for various improvements to the

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Intergovernmental Agreements (Continued)

Rock River Bridge. The intergovernmental agreement note bears no interest and matures on January 16, 2019. As of April 30, 2014, the balance is \$296,062.

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, 2014 are as follows:

Governmental activities	<u>\$ 323,694</u>
Business-type activities	<u><u>\$ 36,271</u></u>

Net Pension Obligations (Assets)

At April 30, 2014, the City had the following net pension obligations:

Police pension (asset)	\$ (119,522)
Fire Pension	<u>87,976</u>
Net pension asset, April 30, 2014	<u><u>\$ (31,546)</u></u>

Business-Type Activities

Loans Payable

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, 2014, the balance is \$532,524.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 5. Long-Term Debt (Continued)

Business-Type Activities (Continued)

Loans Payable (Continued)

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, 2014, the balance is \$553,207.

Debt Service Requirement to Maturity

Fiscal Year Ending April 30	1997 EPA Loan		1996 EPA Loan	
	Principal	Interest	Principal	Interest
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	138,915	3,018	43,374	10,465
2019	-	-	44,465	9,374
2020-2024	-	-	239,680	29,516
2025-2026	-	-	101,847	3,153
	<u>\$ 532,524</u>	<u>\$ 35,207</u>	<u>\$ 553,207</u>	<u>\$ 90,184</u>

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2014:

Assessed valuation - 2013 \$ 171,470,659

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 6. Legal Debt Margin

Statutory Debt Limitation (8.625% of assessed limitation)		\$ 14,789,344
Total debt:		
Alternate revenue source bonds	36,350,000	
Tax increment revenue bonds	3,135,000	
Special service area bonds	160,406	
Loans payable	23,255	
EPA loans payable	1,085,731	40,754,392
Less:		
Alternate revenue source bonds	36,350,000	
Tax increment revenue bonds	3,135,000	
Special service area bonds	160,406	
EPA loans payable	1,085,731	40,731,137
Total amount of debt applicable to debt limit		23,255
Legal Debt Margin		\$ 14,766,089

Note 7. 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 (RSI). That report may be obtained on-line at 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 2013 was 12.25%.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

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 2013 was \$314,563.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2013	\$ 314,563	100%	\$ -
12/31/2012	265,020	100%	-
12/31/2011	275,290	100%	-

The required contribution for 2013 was determined as part of the December 31, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2011, 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 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, 2011 is being amortized as a level percentage of projected payroll on an open 30 year basis.

As of December 31, 2013, the most recent actuarial valuation date, the Regular plan was 91.64% funded. The actuarial accrued liability for benefits was \$10,792,896 and the actuarial value of assets was \$9,890,800, resulting in an underfunded actuarial accrued liability (UAAL) of \$902,096. The covered payroll for calendar year 2013 (annual payroll of active employees covered by the plan) was \$2,567,862 and the ratio of the UAAL to the covered payroll was 35%.

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 7. Employee Retirement Systems (Continued)

Illinois Municipal Retirement (Continued)

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, 2014, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	26
Current employees:	
Vested	16
Nonvested	<u>13</u>
 Total	 <u>55</u>

Employees attaining the age 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank held on the last day of service or for one year prior to the last day, whichever is greater. The pension shall be increased by 2.0% of such salary for each additional year of service over 20 years up to 30 years, and 1% of such salary for each additional year of service over 30 years, to a maximum of 75% of such salary. Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit.

The monthly pension of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3% of the original pension and 3% simple interest annually thereafter.

Covered employees are required to contribute 9.91% of their base salary to the Police Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. The current rate is 33.11% of

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

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, 2014, the plan membership consisted of the following.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	29
Current employees:	
Vested	14
Nonvested	<u>5</u>
Total	<u>48</u>

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

actuarially determined by an enrolled actuary. The current rate is 46.12% 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:

	Police Pension Plan	Firefighters' Pension Plan
Annual required contribution	\$ 574,227	\$ 517,613
Interest on net pension obligation	(6,582)	4,984
Adjustment to annual required contributions	5,018	(3,800)
Annual pension cost	\$ 572,663	\$ 518,797
Contributions made	(601,394)	(499,578)
Change in net pension obligation (asset)	\$ (28,731)	\$ 19,219
Net pension obligation (asset), beginning of year	(90,791)	68,757
Net pension obligation (asset), end of year	<u>\$ (119,522)</u>	<u>\$ 87,976</u>

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

Actuarial valuation date	May 1, 2013
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	24 Years, 0 Months

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 7. Employee Retirement Systems (Continued)

Funding Policy and Annual Pension Cost (Continued)

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>			
04/30/14	\$ 572,663	105.02%	\$ (119,522)
04/30/13	547,279	90.69%	(90,791)
04/30/12	465,860	101.84%	(141,766)
<u>Firefighters' Pension Fund</u>			
04/30/14	\$ 518,794	96.30%	\$ 87,976
04/30/13	470,153	88.14%	68,757
04/30/12	407,687	111.80%	12,997

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 8. 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 \$1,765,076 as of April 30, 2013. Additional disclosures required by this statement are included below.

Plan Description

In addition to providing the pension benefits described in Note 7, 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 April 30, 2013:

Retirees and beneficiaries currently receiving benefits	18
Terminated employees entitled to benefits but not yet receiving them	-
Active employees:	
Vested	65
Nonvested	<u>27</u>
Total	<u>110</u>
Participating employers	<u>1</u>

Note 8. Other Postemployment Benefits (Continued)

Funding Policy

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

Annual OPEB Costs and Net OPEB Obligations

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

The annual OPEB cost is the amount the City charges as the cost of the postemployment health care benefits each fiscal year. If there is no net OPEB obligation, then the annual OPEB cost is equal to the ARC. However, if there is a net OPEB obligation, the annual OPEB cost reflects adjustment for interest on the net OPEB obligation. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended April 30, 2013 was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
April 30, 2013	\$ 378,966	\$ 168,158	44%	\$ 1,765,076

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 8. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

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 percentage of pay over thirty years, resulting in an amortization of \$238,591 for the twelve-month period.

In the April 30, 2013 actuarial valuation, the entry age normal cost method was used.

Discount Rate. The discount rate as of April 30, 2010 is 4.00%. 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.

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the entry age normal cost method. Under this method, the normal cost for each participant is computed as the level percentage of pay which, if paid from the earliest age the participant is eligible to enter the plan until retirement or termination, will accumulate with interest to sufficiently fund all benefits under the plan.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 9. Interfund Balances

Operating Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 26,500	\$ -
CBD Tax Increment Allocation Fund	-	16,000
Capital Fund	-	459,500
Municipal Coliseum Fund	-	275,000
	<u>26,500</u>	<u>750,500</u>
Capital Fund:		
General Fund	459,500	-
Municipal Coliseum Fund	-	550,000
	<u>459,500</u>	<u>550,000</u>
CBD Tax Increment Allocation Fund:		
General Fund	<u>16,000</u>	<u>-</u>
Sewer Fund:		
General Fund	<u>-</u>	<u>26,500</u>
Municipal Coliseum Fund:		
General Fund	275,000	-
Capital Fund	550,000	-
	<u>825,000</u>	<u>-</u>
Total operating transfers	<u>\$ 1,327,000</u>	<u>\$ 1,327,000</u>

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purposes of interfund operating transfers existing at April 30, 2014 were as follows:

The Sewer Fund transfers \$26,500 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 9. Interfund Balances (Continued)

Operating Transfers (Continued)

The General Fund transferred \$275,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum.

The Capital Fund transferred \$550,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum.

The General Fund transferred \$459,500 to the Capital Fund to fund capital purchases for the fiscal year.

Due From/Due To Other Funds

	Due From Other Funds	Due To Other Funds
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Rock River Tax Increment Allocation Fund	2,000,000	
Nonmajor Governmental	33,956	-
	2,483,956	-
Capital Fund:		
Municipal Coliseum Fund	302,444	-
Lincolnway-Lynn Tax Increment Allocation Fund	89,814	-
Rock River Tax Increment Allocation Fund	550,000	-
	942,258	-
Municipal Coliseum Fund:		
Capital Fund	-	302,444
Lincolnway-Lynn Tax Increment Allocation Fund:		
Capital Fund	-	89,814
CDB Tax Increment Allocation Fund:		
General Fund	-	450,000
Rock River Tax Increment Allocation Fund	550,000	-
Nonmajor Governmental	-	402,500
	550,000	852,500

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 9. Interfund Balances (Continued)

Due From/Due To Other Funds (Continued)

	Due From Other Funds	Due To Other Funds
Rock River Tax Increment Allocation Fund:		
General Fund	-	2,000,000
Capital Fund	-	550,000
CBD Tax Increment Allocation Fund	-	550,000
Nonmajor Governmental	-	188,722
	-	3,288,722
Sewer Fund:		
Solid Waste Fund	17,610	-
Solid Waste Fund:		
Sewer Fund	-	17,610
Nonmajor Governmental:		
General Fund	-	33,956
Rock River Tax Increment Allocation Fund	188,722	-
CBD Tax Increment Allocation Fund	402,500	-
Nonmajor Governmental	441,179	441,179
	1,032,401	475,135
Total due from/due to other funds	<u>\$ 5,026,225</u>	<u>\$ 5,026,225</u>

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

Other interfund loans existing at April 30, 2014, 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 \$33,956 for money loaned to cover expenses for library renovations.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 10. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2014:

	<u>Expenditures</u>	<u>Budget</u>
Municipal Coliseum Fund	\$ 2,192,744	\$ 2,156,785
CBD Tax Increment Allocation Fund	57,792	53,623
Band Fund	92,981	91,639
Special Service Area Fund	69,259	66,010

The following funds had deficit fund balances or deficit retained earnings at April 30, 2014:

	<u>Deficit</u>
Municipal Coliseum Fund	\$ 652,961
Rock River Tax Increment Allocation Fund	1,244,293
CBD Tax Increment Allocation Fund	261,836
Lincolnway-Lynn Tax Increment Allocation Fund	89,814
Special Service Area Fund	1,911
NWSW Redevelopment Fund	307,259

Note 11. Component Unit - CGH Medical Center

The following is a summary of certain accounting policies and note disclosures for the CGH Medical Center. Complete financial statements and note disclosures are available in the separately issued CGH Medical Center annual report for the fiscal year ended April 30, 2014.

Basis of Accounting

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Patient Accounts Receivable and Credit Policies

Patient accounts receivable are uncollateralized patient and third-party payer obligations which generally require payment within thirty days from invoice date. Statements are sent out approximately every thirty days. On the fourth statement the account is considered delinquent and a collection letter is sent. The account is turned over to collection at approximately one hundred twenty days, unless the patient account has been set up on a payment plan. At the time they are turned over to collection, they are also written off as uncollectible.

Payments of patient 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 patient 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 service revenue for each of these allowances is recorded on a monthly basis as an offset to patient service revenue and patient accounts receivable. 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Investments and Investment Income (Continued)

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

Assets Limited as to Use

Assets limited as to use includes assets for health development over which the board retains control and may, at its discretion, subsequently use for other purposes.

Compensated Absences

Benefits 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 earned and accrued in excess of 480 hours (60 days) may be bought back from the employee in July of each year. The obligation and expenditure incurred during the year are recorded as salaries, wages, and benefits in the statement of net position, and as a component of employee benefits in the statement of revenues, expenses, and changes in net position.

Long-Term Liabilities

Long-term liabilities include principal amounts of bonds payable, note payable, and obligations under capital leases with contractual maturities greater than one year.

Net Position

The Medical Center's net position is classified as follows:

- *Net investment in capital assets* consist of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted net position* is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors. 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, 2014

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

Net Assets (Continued)

- *Unrestricted net position* is remaining net assets that do not meet the definition of *net investment in capital assets* 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 payers was as follows:

Medicare	30%
Medicaid	10
Blue Cross	11
Other third-party payors	32
Patients	<u>17</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 service revenues. The combined statement of revenues, expenses, and changes in net position 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 related services, other than financing costs.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Classification of Revenues and Expenses (Continued)

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as other revenue sources that are defined as nonoperating revenues by GASB for example, 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payers. 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 payers 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 \$2,224,000 of the claimed excess in net patient service revenue for the year ended April 30, 2014. 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, 2010.

Medicaid

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Net Patient Service Revenue (Continued)

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, 2013.

The Medical Center qualifies for an inpatient and outpatient bonus incentive from Blue Cross based upon specific requirements that are met. The Medical Center recorded \$491,496 for the year ended April 30, 2014, which is reflected within the estimated third-party payer settlements receivable on the combined statement of net position.

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 32% and 6%, respectively, of the Medical Center's net patient service revenue for the year ended April 30, 2014. 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 receives additional Medicaid reimbursement from the State. The Program has been extended through June 30, 2018. Cash payments of \$3,541,898 were received and were included in net patient service revenue for the year ended April 30, 2014. In relation to this program, the Medical Center has recorded a deferred revenue of \$0- at April 30, 2014.

The Department of Healthcare and Family Services is to make hospital access improvement payments for the period through June 30, 2018. Cash payments of \$2,603,536 were received and were included in net patient service revenue for the year ended April 30, 2014.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care includes the amount of costs forgone for services and supplies furnished under its charity care policy and was approximately \$7,700,000 for the year ended April 30, 2014. Charity care cost was determined on the application of the associated cost-to-charge ratios.

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 taxable 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

Capital asset acquisitions are reported 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. Equipment under capital lease obligations are amortized on the straight-line method over

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Capital Assets (Continued)

the shorter period of the lease term or the estimated useful life of the equipment. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from three to forty years, and is computed using the straight-line method.

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, 2014, the net equity in unconsolidated investees is \$5,127,106.

Deposits and Investments

The carrying amount of the Medical Center's cash and deposits was \$30,203,566 and the bank balances totaled \$30,516,494. Cash on hand was \$5,470.

As of April 30, 2014, 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	\$ 11,039,454	\$ 7,916,952	\$ 2,872,502	\$ 250,000	\$ -
Mutual Funds	6,895,478	6,895,478	-	-	-
FNMA	1,633,878	-	1,611,875	-	22,003
FHLB	1,148,303	-	1,148,303	-	-
GNMA	680,017	-	-	-	680,017
FHLMC	298,114	-	248,443	-	49,671
Municipal Bonds	14,310,337	3,059,961	11,099,061	25,573	125,742
	<u>\$ 36,005,581</u>	<u>\$ 17,872,391</u>	<u>\$ 16,980,184</u>	<u>\$ 275,573</u>	<u>\$ 877,433</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, 2014

Note 11. 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, 2014, bonds payable consisted of the following issues:

2012 City of Sterling Hospital General Obligation Refunding Bonds, dated December 20, 2012, due in annual installments through 2022, bearing interest at variable rates ranging from 2.00% to 4.00%. The interest is payable semiannually.

Transactions for the year ended April 30, 2014, are summarized as follows:

	<u>Balance at May 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2014</u>
2012 City of Sterling Hospital General Obligation Refunding Bonds	\$ 30,370,000	\$ -	\$ 4,375,000	\$ 25,995,000
Unamortized bond discount	1,717,474	-	179,215	1,538,259
Total revenue bonds payable	\$ 32,087,474	\$ -	\$ 4,554,215	\$ 27,533,259

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Revenue Bonds Payable (Continued)

For the Series 2012 obligation bonds, annual requirements of principal payments to retire debt obligations are due on November 1st each year. Interest only payments are due on May 1st and November 1st each year. Annual requirements to retire debt obligations are as follows:

Year Ending	Principal	Interest	Total
<u>April 30</u>			
2015	\$ 2,570,000	\$ 827,025	\$ 3,397,025
2016	2,630,000	768,450	3,398,450
2017	2,695,000	701,888	3,396,888
2018	2,750,000	626,950	3,376,950
2019	2,830,000	543,250	3,373,250
2020-2022	12,520,000	1,028,600	13,548,600
	<u>\$ 25,995,000</u>	<u>\$ 4,496,163</u>	<u>\$ 30,491,163</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

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

Capital Assets

Capital asset activity for the year ended April 30, 2014 was as follows:

	<u>Balance at</u> <u>May 1, 2013</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at</u> <u>April 30, 2014</u>
Medical Center				
Land	\$ 2,593,156	\$ 56,243	\$ -	\$ 2,649,399
Land Improvements	2,179,632	1,580,522	-	3,760,154
Buildings and building improvements	55,739,806	3,840,629	(22,147,959)	81,728,394
Rented buildings	23,601,562	-	22,779,382	822,180
Building service equipment	14,004,779	-	268,629	13,736,150
Moveable equipment	69,639,838	5,076,374	5,012,832	69,703,380
Construction in progress	6,994,897	10,790,781	11,008,889	6,776,789
Total cost	<u>\$ 174,753,670</u>	<u>\$ 21,344,549</u>	<u>\$ 16,921,773</u>	<u>\$ 179,176,446</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,679,979	\$ 165,112	\$ -	\$ 1,845,091
Buildings	28,714,077	3,301,273	(9,070,787)	41,086,137
Rented buildings	10,438,460	49,378	9,674,261	813,577
Building service equipment	11,213,990	307,230	264,487	11,256,733
Moveable equipment	45,671,421	6,940,780	4,755,682	47,856,519
Total accumulated depreciation	<u>\$ 97,717,927</u>	<u>\$ 10,763,773</u>	<u>\$ 5,623,643</u>	<u>\$ 102,858,057</u>
Total Medical Center capital assets, net	<u>\$ 77,035,743</u>	<u>\$ 10,580,776</u>	<u>\$ 11,298,130</u>	<u>\$ 76,318,389</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, 2014 to be approximately \$1,200,000, which is included in other liabilities on the Statement of Net Position.

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, 2014

Note 11. 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 \$978,469. 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 was a claims made policy that had 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 12. 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, 2014 by opinion unit are as follows:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 12. Fund Balances (Continued)

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Municipal Coliseum Fund</u>	<u>2012 CGH Medical Center Bond Fund</u>	<u>CBD Tax Increment Allocation Fund</u>	<u>Lincolnway- Lynn Tax Increment Allocation Fund</u>	<u>Rock River Tax Increment Allocation Fund</u>	<u>Other Gov't Funds</u>
Fund Balances:								
Nonspendable:								
Inventories	\$ 63,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Items	-	-	-	-	-	-	-	-
Loans	<u>483,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>508,283</u>
Total nonspendable	<u>\$ 547,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508,283</u>
Restricted:								
Public Safety	\$ 113,931	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,016
Community Dev	-	-	-	44	-	-	-	654,267
Culture & Rec	-	-	-	-	-	-	-	1,038,692
Cap Imp & Equip	-	-	-	-	-	-	-	371,388
IMRF/Soc Sec	-	-	-	-	-	-	-	<u>580,251</u>
Total Restricted	<u>\$ 113,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,730,614</u>
Committed:								
Cap Imp & Equip	<u>\$ -</u>	<u>\$ 2,224,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Unassigned	<u>\$ 4,404,958</u>	<u>\$ -</u>	<u>\$ (652,961)</u>	<u>\$ -</u>	<u>\$ (261,836)</u>	<u>\$ (89,814)</u>	<u>\$ (1,244,293)</u>	<u>\$ (309,170)</u>
Total Fund Balances	<u>\$ 5,066,824</u>	<u>\$ 2,224,684</u>	<u>\$ (652,961)</u>	<u>\$ 44</u>	<u>\$ (261,836)</u>	<u>\$ (89,814)</u>	<u>\$ (1,244,293)</u>	<u>\$ 2,929,727</u>

Note 13. Prior Period Adjustments

During the year ended April 30, 2013, the City understated the construction in progress balance in the government-wide financial statements.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2014

Note 13. Prior Period Adjustments (Continued)

This adjustment had the following effect on beginning net position.

	<u>Governmental Activities</u>
Beginning net position, as previously stated	\$ 23,342,752
Correction of error	100,881
Beginning net position, after adjustment	<u><u>\$ 23,443,633</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
April 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll {(b-a)/c}
<u>Police Pension Fund</u>						
4/30/14	\$ 12,195,316	\$ 18,769,772	\$ 6,574,456	64.97%	\$ 1,711,662	384.10%
4/30/13	11,828,918	18,014,751	6,185,833	65.66%	1,641,838	376.76%
4/30/12	12,313,112	17,231,453	4,918,341	71.46%	1,630,981	301.56%
<u>Firemen Pension Fund</u>						
4/30/14	\$ 11,507,546	\$ 17,620,059	\$ 6,112,513	65.31%	\$ 1,113,042	549.17%
4/30/13	11,412,046	16,616,050	5,204,004	68.68%	1,095,109	475.20%
4/30/12	12,045,211	16,123,841	4,078,630	74.70%	1,115,169	365.74%
<u>IMRF</u>						
12/31/13	\$ 9,890,800	\$ 10,792,896	\$ 902,096	91.64%	\$ 2,567,862	35.13%
12/31/12	8,153,079	9,844,591	1,691,512	82.82%	2,507,281	67.46%
12/31/11	8,127,464	9,881,985	1,754,521	82.25%	2,471,182	71.00%
<p>On a market value basis, the actuarial value of assets as of December 31, 2013 is \$12,239,994. On a market basis, the funded ratio would be 113.41%.</p> <p>The actuarial value of assets and accrued liability cover active and inactive members who have service credit with the City of Sterling. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.</p>						
<u>Other Postemployment Benefits</u>						
4/30/13	\$ -	\$ 7,235,440	\$ 7,235,440	0.00%	\$ 7,808,958	92.66%

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Property taxes:				
Corporate	\$ 405,539	\$ 400,646	\$ 400,646	\$ -
Fire protection	243,315	240,389	240,389	-
Police protection	243,315	240,389	240,389	-
Liability insurance	318,215	318,361	318,361	-
Workers' compensation	105,055	105,291	105,291	-
Road and bridge	134,162	131,645	131,645	-
Police pension	577,996	578,694	578,694	-
Fire pension	470,140	470,678	470,678	-
Total property taxes	<u>\$ 2,497,737</u>	<u>\$ 2,486,093</u>	<u>\$ 2,486,093</u>	<u>\$ -</u>
Sales tax	<u>\$ 3,967,595</u>	<u>\$ 3,905,366</u>	<u>\$ 3,880,326</u>	<u>\$ (25,040)</u>
Intergovernmental revenue:				
State income tax	\$ 1,409,263	\$ 1,519,916	\$ 1,467,811	\$ (52,105)
State replacement tax	273,490	378,828	327,839	(50,989)
Township replacement tax	16,140	20,690	16,829	(3,861)
Digital RF Transmitter Grant	-	-	7,900	7,900
Blackhawk Area Task Force Grant	69,579	69,579	85,120	15,541
Grant Writer Grant	-	-	8,333	8,333
Sustained Traffic Enforcement Grant	25,000	9,646	2,673	(6,973)
Fire Act Grant	-	39,690	39,690	-
Small Equipment Grant	-	20,000	-	(20,000)
Tobacco Grant	2,000	2,200	2,122	(78)
Bulletproof Vest Grant	2,500	1,030	826	(204)
American Water Firefighter Grant	-	1,000	1,000	-
Other grants	500	1,000	1,000	-
Fire protection revenue	290,116	274,414	274,414	-
Total intergovernmental revenue	<u>\$ 2,088,588</u>	<u>\$ 2,337,993</u>	<u>\$ 2,235,557</u>	<u>\$ (102,436)</u>
Licenses and permits:				
Franchise licenses	\$ 643,319	\$ 589,411	\$ 579,193	\$ (10,218)
Liquor licenses	60,743	62,190	57,950	(4,240)
Building permits	45,593	25,636	24,209	(1,427)
Other	47,200	52,068	47,977	(4,091)
Total licenses and permits	<u>\$ 796,855</u>	<u>\$ 729,305</u>	<u>\$ 709,329</u>	<u>\$ (19,976)</u>
Fines and penalties	<u>\$ 170,674</u>	<u>\$ 173,241</u>	<u>\$ 179,473</u>	<u>\$ 6,232</u>
Charges for services	<u>\$ 61,538</u>	<u>\$ 69,161</u>	<u>\$ 66,763</u>	<u>\$ (2,398)</u>
Investment income:				
Interest income	\$ 144,988	\$ 60,654	\$ 12,021	\$ (48,633)
Net change in fair market value	-	-	66,582	66,582
Total investment income	<u>\$ 144,988</u>	<u>\$ 60,654</u>	<u>\$ 78,603</u>	<u>\$ 17,949</u>
Donations	<u>92,000</u>	<u>83,040</u>	<u>75,332</u>	<u>(7,708)</u>
Other	<u>381,985</u>	<u>404,618</u>	<u>419,044</u>	<u>14,426</u>
Total revenues	<u>\$10,201,960</u>	<u>\$10,249,471</u>	<u>\$10,130,520</u>	<u>\$ (118,951)</u>

(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
EXPENDITURES				
General government:				
Office of the Mayor and City Council	\$ 32,540	\$ 29,331	\$ 29,350	\$ (19)
Office of City Clerk	124,190	119,025	114,966	4,059
Policy and Administration	304,657	294,962	284,747	10,215
Total general government	<u>\$ 461,387</u>	<u>\$ 443,318</u>	<u>\$ 429,063</u>	<u>\$ 14,255</u>
Public safety:				
Police Department				
Police Services Division	\$ 1,545,439	\$ 1,511,308	\$ 1,496,896	\$ 14,412
Administrative Services Division	333,896	337,840	337,696	144
Investigative Division	286,338	294,256	293,164	1,092
Support Services Division	576,111	556,287	543,501	12,786
Blackhawk Area Task Force Grant	69,579	69,579	93,020	(23,441)
Fire Department				
Fire Services Division	1,371,470	1,640,535	1,584,299	56,236
Administrative Services Division	124,290	143,435	142,459	976
Fire Prevention and Training Division	43,954	46,007	43,441	2,566
Total public safety	<u>\$ 4,351,077</u>	<u>\$ 4,599,247</u>	<u>\$ 4,534,476</u>	<u>\$ 64,771</u>
Public works and transportation:				
Administrative Division	\$ 99,628	\$ 98,698	\$ 96,958	\$ 1,740
Street Division	882,999	896,364	871,777	24,587
Traffic Division	58,160	56,010	50,041	5,969
City Shop	46,876	45,982	47,057	(1,075)
City Parks	73,975	72,900	61,870	11,030
Total public works and transportation	<u>\$ 1,161,638</u>	<u>\$ 1,169,954</u>	<u>\$ 1,127,703</u>	<u>\$ 42,251</u>
Community development:				
Office of Community Development	\$ 296,787	\$ 283,921	\$ 275,397	\$ 8,524
Other				
Contribution to police pension plan	\$ 577,996	\$ 578,694	\$ 578,694	\$ -
Contribution to fire pension plan	470,140	470,678	470,678	-
Sterling Planning Commission	49,610	43,275	50,014	(6,739)
Police and Fire Commission	13,275	12,940	15,306	(2,366)
Non-departmental	1,927,452	1,874,054	1,852,772	21,282
Total other	<u>\$ 3,038,473</u>	<u>\$ 2,979,641</u>	<u>\$ 2,967,464</u>	<u>\$ 12,177</u>
Debt service:				
Principal	\$ 22,796	\$ 22,805	\$ 22,805	\$ -
Interest	1,289	1,280	1,280	-
Total debt service	<u>\$ 24,085</u>	<u>\$ 24,085</u>	<u>\$ 24,085</u>	<u>\$ -</u>
Capital outlay	<u>145,702</u>	<u>146,980</u>	<u>108,420</u>	<u>38,560</u>
Total expenditures	<u>\$ 9,479,149</u>	<u>\$ 9,647,146</u>	<u>9,466,608</u>	<u>\$ 180,538</u>
Excess of revenues over expenditures			<u>\$ 663,912</u>	

(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Appropriation</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable
				(unfavorable)
OTHER FINANCING SOURCES (USES)				
Sale of property	\$ 1,500	\$ 6,942	\$ 7,306	\$ 364
Operating transfers in	26,500	26,500	26,500	-
Operating transfers out	<u>(750,500)</u>	<u>(750,500)</u>	<u>(750,500)</u>	<u>-</u>
	<u>\$ (722,500)</u>	<u>\$ (717,058)</u>	<u>(716,694)</u>	<u>\$ 364</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(52,782)	
FUND BALANCE, BEGINNING OF YEAR,			<u>5,119,606</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,066,824</u>	

See Accompanying Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
CAPITAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Sales	\$ 1,135,023	\$ 1,016,735	\$ 1,010,846	\$ (5,889)
Charges for service	-	15,000	13,749	(1,251)
Interest	89,019	100,733	48,312	(52,421)
Net change in fair value of investments	-	-	(117,813)	(117,813)
Donations	50,000	50,000	50,400	400
Other	-	170,000	167,791	(2,209)
	<u>-</u>	<u>170,000</u>	<u>167,791</u>	<u>(2,209)</u>
Total revenues	<u>\$ 1,274,042</u>	<u>\$ 1,352,468</u>	<u>1,173,285</u>	<u>\$ (179,183)</u>
EXPENDITURES				
General government				
Bank expense	\$ 103	\$ 365	\$ 350	\$ 15
Public works and transportation				
Streets	1,134,000	700,000	593,694	106,306
Community development				
Demolition of property	71,040	74,647	67,362	7,285
Dumpster behind theater	-	-	1,320	(1,320)
Capital outlay				
Software	16,250	-	14,250	(14,250)
Public Works building addition	12,500	10,000	12,667	(2,667)
Streetscape Program	150,000	335,000	378,137	(43,137)
North Central Regional detention pond	-	759	6,759	(6,000)
Coliseum asbestos abatement	-	575,000	1,830	573,170
Fire truck	-	170,000	171,124	(1,124)
Police video recording system	44,000	43,965	38,870	5,095
Wireless router and server	-	-	5,095	(5,095)
Fire Station 1 generator	38,000	27,655	31,655	(4,000)
Public Works slipform paver	124,000	119,625	119,625	-
Public Works sprinkler	60,000	60,000	-	60,000
Public Works pickup truck and plow	36,000	36,000	35,086	914
5th Avenue/East Miller Road reconstruction	-	-	43,974	(43,974)
Sidewalks/curb and gutter	100,000	50,000	67,201	(17,201)
	<u>100,000</u>	<u>50,000</u>	<u>67,201</u>	<u>(17,201)</u>
Total expenditures	<u>\$ 1,785,893</u>	<u>\$ 2,203,016</u>	<u>1,588,999</u>	<u>\$ 614,017</u>
Deficiency of revenues over expenditures			<u>(415,714)</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 459,500	\$ 459,500	459,500	\$ -
Operating transfers out	-	-	(550,000.00)	(550,000)
Sale of property	-	36	36	-
Advance for theater renovation	(250,000)	(685,000)	(698,566)	(13,566)
	<u>(250,000)</u>	<u>(685,000)</u>	<u>(698,566)</u>	<u>(13,566)</u>
	<u>\$ 209,500</u>	<u>\$ (225,464)</u>	<u>(789,030)</u>	<u>\$ (563,566)</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(1,204,744)	
FUND BALANCE, BEGINNING OF YEAR			<u>3,429,428</u>	
FUND BALANCE, END OF YEAR			<u>\$ 2,224,684</u>	

See Accompanying Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
MUNICIPAL COLISEUM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable (unfavorable)
REVENUES				
Taxes				
Property	\$ 81,008	\$ 80,129	\$ 80,129	\$ -
Intergovernmental				
State replacement tax	12,313	16,003	14,329	(1,674)
Charges for services	20,700	20,819	20,867	48
Interest	326	31	31	-
Donations	50,000	-	-	-
	<u>164,347</u>	<u>116,982</u>	<u>115,356</u>	<u>(1,626)</u>
Total revenues				
	<u>\$ 164,347</u>	<u>\$ 116,982</u>	<u>115,356</u>	<u>\$ (1,626)</u>
EXPENDITURES				
General government				
Salaries	\$ 61,019	\$ 60,210	59,807	\$ 403
Health insurance	18,361	18,361	18,361	-
Worker's compensation	7,434	7,504	7,504	-
Maintenance	19,779	17,319	14,754	2,565
Janitorial supplies	4,963	7,969	8,221	(252)
General utilities	10,772	3,610	3,444	166
General insurance	25,887	27,659	27,659	-
Other contractual services	154,500	50,000	754	49,246
Small equipment	50,000	50,000	35,459	14,541
Accounting service	1,850	1,850	1,850	-
Miscellaneous	2,617	2,782	2,729	53
Debt service				
Interest	158,429	157,521	157,521	-
Capital outlay	<u>1,752,000</u>	<u>1,752,000</u>	<u>1,854,681</u>	<u>(102,681)</u>
Total expenditures	<u>\$ 2,267,611</u>	<u>\$ 2,156,785</u>	<u>2,192,744</u>	<u>\$ (35,959)</u>
Deficiency of revenues over expenditures			<u>(2,077,388)</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 275,000	\$ 825,000	825,000	\$ -
Sale of property	<u>-</u>	<u>1,441</u>	<u>1,441</u>	<u>-</u>
	<u>\$ 275,000</u>	<u>\$ 826,441</u>	<u>826,441</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			\$ (1,250,947)	
FUND BALANCE, BEGINNING OF YEAR			<u>597,986</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (652,961)</u>	

See Accompanying Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
2012 CGH MEDICAL CENTER BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 34	\$ -	\$ -	\$ -
Other	<u>5,271,475</u>	<u>5,271,793</u>	<u>5,271,793</u>	<u>-</u>
Total revenues	<u>\$ 5,271,509</u>	<u>\$ 5,271,793</u>	<u>5,271,793</u>	<u>\$ -</u>
EXPENDITURES				
Other				
Bond expense	\$ -	\$ 318	\$ 318	\$ -
Debt service				
Principal	4,375,000	4,375,000	4,375,000	-
Interest	<u>896,475</u>	<u>896,475</u>	<u>896,475</u>	<u>-</u>
Total expenditures	<u>\$ 5,271,475</u>	<u>\$ 5,271,793</u>	<u>5,271,793</u>	<u>\$ -</u>
Excess of revenues over expenditures			<u>-</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			-	
FUND BALANCE, BEGINNING OF YEAR			<u>44</u>	
FUND BALANCE, END OF YEAR			<u>\$ 44</u>	

See Accompanying Notes to Required Supplementary Information

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, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property	\$ 301,304	\$ 305,918	\$ 305,918	\$ -
Sales	120,000	120,000	120,000	-
Interest	9,283	6,580	7,236	656
Net change in fair value of investments	-	-	(5,190)	(5,190)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 430,587</u>	<u>\$ 432,498</u>	<u>427,964</u>	<u>\$ (4,534)</u>
EXPENDITURES				
Community development				
Miscellaneous	\$ 1,717	\$ 1,757	1,062	\$ 695
Debt service				
Principal	25,000	25,000	25,000	-
Capital outlay	<u>100,000</u>	<u>26,866</u>	<u>31,730</u>	<u>(4,864)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 126,717</u>	<u>\$ 53,623</u>	<u>57,792</u>	<u>\$ (4,169)</u>
Excess of revenues over expenditures			<u>370,172</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>16,000</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			386,172	
FUND DEFICIT, BEGINNING OF YEAR			<u>(648,008)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (261,836)</u>	

See Accompanying Notes to Required Supplementary Information

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, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 42,830	\$ 154,010	\$ 154,010	\$ -
Interest	-	49	49	-
Other	<u>461,663</u>	<u>461,663</u>	<u>461,663</u>	<u>-</u>
Total revenues	<u>\$ 504,493</u>	<u>\$ 615,722</u>	<u>615,722</u>	<u>\$ -</u>
EXPENDITURES				
Community development				
Legal service	\$ 247	\$ 2,000	1,500	\$ 500
Reimbursement of developer TIF increment	3,534	153,010	153,010	-
Miscellaneous	1,199	1,186	928	258
Debt service				
Principal	195,000	195,000	195,000	-
Interest	<u>266,663</u>	<u>266,663</u>	<u>266,663</u>	<u>-</u>
Total expenditures	<u>\$ 466,643</u>	<u>\$ 617,859</u>	<u>617,101</u>	<u>\$ 758</u>
Deficiency of revenues over expenditures			<u>(1,379)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>(1,379)</u>	
FUND DEFICIT, BEGINNING OF YEAR			<u>(88,435)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (89,814)</u>	

See Accompanying Notes to Required Supplementary Information

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, 2014

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable (unfavorable)
REVENUES				
Taxes				
Property	\$ 530,087	\$ 503,227	\$ 503,227	\$ -
Intergovernmental				
Federal grants	6,791	5,313	5,313	-
Interest	363	287	234	(53)
Other	<u>9,361</u>	<u>-</u>	<u>10,868</u>	<u>10,868</u>
Total revenues	<u>\$ 546,602</u>	<u>\$ 508,827</u>	<u>519,642</u>	<u>\$ 10,815</u>
EXPENDITURES				
Community development				
Other professional service	\$ 41,791	\$ 50,000	80,005	\$ (30,005)
Legal service	200,000	350,000	314,800	35,200
Bank expense	59,100	67,326	69,036	(1,710)
Miscellaneous	758	758	500	258
Debt service				
Principal	205,000	205,000	205,000	-
Interest	<u>20,000</u>	<u>8,221</u>	<u>7,616</u>	<u>605</u>
Total expenditures	<u>\$ 526,649</u>	<u>\$ 681,305</u>	<u>676,957</u>	<u>\$ 4,348</u>
Deficiency of revenues over expenditures			<u>(157,315)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>(157,315)</u>	
FUND DEFICIT, BEGINNING OF YEAR			<u>(1,086,978)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (1,244,293)</u>	

See Accompanying Notes to Required Supplementary Information

CITY OF STERLING, ILLINOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
April 30, 2014

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>
Municipal Coliseum Fund	\$ 2,192,744	\$ 2,156,785
CBD Tax Increment Allocation Fund	57,792	53,623

SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended April 30, 2014

	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	IGIG Grant Fund	NSP2 Grant Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund							
REVENUES																					
Taxes																					
Intergovernmental	447,923	136,905	9,423	-	187,342	197,116	9,936	56,213	78,225	-	200,000	-	-	-	-	-	-	1,071,483			
Charges for services	-	12,736	2,450	120,379	5,050	3,959	3,345	-	-	-	-	-	96,450	-	-	-	-	741,043			
Interest	88	17,172	75	5,145	18,132	93	340	-	14	17	43	-	-	-	-	-	-	232,015			
Net change in fair value of investments	-	(12,486)	-	-	(11,888)	-	(278)	-	-	-	-	-	-	-	-	-	-	41,119			
Donations	-	60,575	38,446	-	-	-	-	-	-	-	-	-	50,000	-	-	-	-	(24,652)			
Other	-	25,157	-	823	61,626	43,500	-	-	-	2,025	-	-	492	-	-	-	-	149,021			
Total revenues	\$ 448,011	\$ 648,630	\$ 105,041	\$ 126,347	\$ 260,262	\$ 244,668	\$ 13,343	\$ 56,213	\$ 78,239	\$ 15,913	\$ 200,043	\$ -	\$ 146,942	\$ -	\$ -	\$ -	\$ -	\$ 2,343,652			
EXPENDITURES																					
Current																					
General government	-	-	-	-	317,918	240,344	-	-	-	3,249	-	-	-	-	-	-	-	561,511			
Public safety	-	-	-	-	-	-	8,141	-	-	-	-	-	-	-	-	-	-	8,141			
Public works and transportation	267,705	-	-	-	-	-	-	-	-	-	428	-	-	-	-	-	-	268,133			
Community development	-	-	-	103,191	-	-	-	56,213	14,973	-	-	-	19,281	-	-	-	-	193,658			
Culture and recreation	-	600,766	92,981	-	-	-	-	-	-	-	-	-	-	-	-	-	-	693,747			
Debt service	186,656	-	-	-	-	-	-	-	-	53,631	200,000	-	-	-	-	-	-	440,287			
Principal	22,253	-	-	-	-	-	-	-	-	12,379	11,300	-	-	-	-	-	-	45,932			
Interest	-	-	-	6,350	-	-	-	-	97,565	-	-	-	-	-	-	-	-	103,915			
Capital outlay	476,614	600,766	92,981	109,541	317,918	240,344	8,141	56,213	112,538	69,259	211,728	-	19,281	-	-	-	-	2,315,324			
Total expenditures	\$ (28,603)	\$ 47,864	\$ 12,060	\$ 16,806	\$ (57,656)	\$ 4,324	\$ 5,202	\$ -	\$ (34,299)	\$ (53,346)	\$ (11,685)	\$ -	\$ 127,661	\$ -	\$ -	\$ -	\$ -	\$ 28,328			
Excess (deficiency) of revenues over expenditures																					
OTHER FINANCING SOURCES (USES)																					
Sale of property	-	1,722	-	43,426	-	-	-	-	34,299	-	-	-	-	-	-	-	-	79,447			
Total other financing sources	-	1,722	-	43,426	-	-	-	-	34,299	-	-	-	-	-	-	-	-	79,447			
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (28,603)	\$ 49,586	\$ 12,060	\$ 60,232	\$ (57,656)	\$ 4,324	\$ 5,202	\$ -	\$ -	\$ (53,346)	\$ (11,685)	\$ -	\$ 127,661	\$ -	\$ -	\$ -	\$ -	\$ 107,775			
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	374,956	853,627	123,419	699,818	512,079	121,504	80,814	-	-	51,435	36,720	-	(434,920)	402,500	-	-	-	2,821,952			
FUND BALANCE (DEFICIT), END OF YEAR	\$ 346,353	\$ 903,213	\$ 135,479	\$ 760,050	\$ 454,423	\$ 125,828	\$ 86,016	\$ -	\$ -	\$ (1,911)	\$ 25,035	\$ -	\$ (307,259)	\$ 402,500	\$ -	\$ -	\$ -	\$ 2,929,727			

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
April 30, 2014

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Totals
ASSETS			
Cash	\$ 112,225	\$ 117,311	\$ 229,536
Accrued interest receivable	19,527	23,568	43,095
Investments, at fair value	<u>12,416,314</u>	<u>11,779,996</u>	<u>24,196,310</u>
TOTAL ASSETS	<u>\$ 12,548,066</u>	<u>\$ 11,920,875</u>	<u>\$ 24,468,941</u>
LIABILITIES	<u>\$ -</u>	<u>\$ 525</u>	<u>\$ 525</u>
NET POSITION	<u>\$ 12,548,066</u>	<u>\$ 11,920,350</u>	<u>\$ 24,468,416</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
Year Ended April 30, 2014

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Total
ADDITIONS			
Contributions			
Employer	\$ 601,394	\$ 499,578	\$ 1,100,972
Plan members	169,625	105,119	274,744
Total contributions	<u>\$ 771,019</u>	<u>\$ 604,697</u>	<u>\$ 1,375,716</u>
Investment income			
Interest earned	\$ 310,697	\$ 410,061	\$ 720,758
Net change in fair value	676,325	699,230	1,375,555
Total investment income	<u>\$ 987,022</u>	<u>\$ 1,109,291</u>	<u>\$ 2,096,313</u>
Other revenue	<u>\$ -</u>	<u>\$ 332</u>	<u>\$ 332</u>
Total additions	<u>\$ 1,758,041</u>	<u>\$ 1,714,320</u>	<u>\$ 3,472,361</u>
DEDUCTIONS			
Administrative	\$ 94,275	\$ 70,466	\$ 164,741
Benefits	947,622	1,062,104	2,009,726
Total deductions	<u>\$ 1,041,897</u>	<u>\$ 1,132,570</u>	<u>\$ 2,174,467</u>
CHANGE IN NET POSITION	<u>\$ 716,144</u>	<u>\$ 581,750</u>	<u>\$ 1,297,894</u>
NET POSITION, BEGINNING OF YEAR	<u>11,831,922</u>	<u>11,338,600</u>	<u>23,170,522</u>
NET POSITION, END OF YEAR	<u>\$ 12,548,066</u>	<u>\$ 11,920,350</u>	<u>\$ 24,468,416</u>

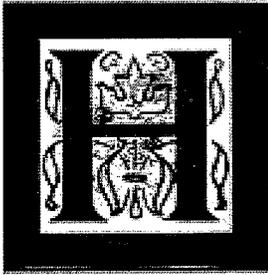
CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
April 30, 2014

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 22,387,001	\$ 16,083	\$ 22,403,084
Patient accounts receivable, less allowance for uncollectible accounts of \$12,583,467	32,069,368	-	32,069,368
Other receivables	712,562	-	712,562
Estimated third-party payor settlements	1,276,642	-	1,276,642
Due from unconsolidated investees	150,407	-	150,407
Inventories	2,691,571	-	2,691,571
Accrued interest receivable	162,538	-	162,538
Prepaid expenses	2,001,623	-	2,001,623
Total current assets	<u>\$ 61,451,712</u>	<u>\$ 16,083</u>	<u>\$ 61,467,795</u>
Other assets			
Investments	\$ 36,005,581	\$ -	\$ 36,005,581
Assets limited as to use	3,108,125	-	3,108,125
Capital assets, net	76,318,389	-	76,318,389
Other assets	1,633,784	-	1,633,784
Net equity in unconsolidated investees	5,127,106	-	5,127,106
Total other assets	<u>\$ 122,192,985</u>	<u>\$ -</u>	<u>\$ 122,192,985</u>
TOTAL ASSETS	<u>\$ 183,644,697</u>	<u>\$ 16,083</u>	<u>\$ 183,660,780</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 4,167,491	\$ -	\$ 4,167,491
Accrued salaries, wages, and benefits	11,863,869	-	11,863,869
Accrued malpractice	978,469	-	978,469
Current maturities of long-term debt	245,270	-	245,270
Revenue bonds payable, current maturities	2,570,000	-	2,570,000
Estimated third-party payor settlements	8,248,781	-	8,248,781
Current maturities of obligations under capital lease	344,423	-	344,423
Other current liabilities	4,106,120	-	4,106,120
Total current liabilities	<u>\$ 32,524,423</u>	<u>\$ -</u>	<u>\$ 32,524,423</u>
Long-term liabilities			
Long-term debt, less current maturities	\$ 1,797,614	\$ -	\$ 1,797,614
Revenue bonds payable, less current maturities and net of unamortized discount of \$1,538,259	24,963,259	-	24,963,259
Total noncurrent liabilities	<u>\$ 26,760,873</u>	<u>\$ -</u>	<u>\$ 26,760,873</u>
Total liabilities	<u>\$ 59,285,296</u>	<u>\$ -</u>	<u>\$ 59,285,296</u>
NET POSITION			
Net investment in capital assets	\$ 46,397,823	\$ -	\$ 46,397,823
Restricted for:			
Health development	3,108,125	-	3,108,125
Unrestricted	74,853,453	16,083	74,869,536
Total net position	<u>\$ 124,359,401</u>	<u>\$ 16,083</u>	<u>\$ 124,375,484</u>

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - COMPONENT UNITS
Year Ended April 30, 2014

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
OPERATING REVENUE			
Net patient service revenue	\$ 194,272,022	\$ -	\$ 194,272,022
Other revenue	5,785,840	20,516	5,806,356
Total operating revenue	<u>\$ 200,057,862</u>	<u>\$ 20,516</u>	<u>\$ 200,078,378</u>
OPERATING EXPENSES			
Salaries and wages	\$ 85,265,715	\$ -	\$ 85,265,715
Employee benefits	25,379,011	-	25,379,011
Pension expense	7,357,573	-	7,357,573
Medical fees	8,459,905	-	8,459,905
Patient service supplies	28,837,434	-	28,837,434
Utilities	2,120,094	-	2,120,094
Purchased services	4,318,195	-	4,318,195
Repairs and replacements	6,027,353	3,163	6,030,516
Depreciation and amortization	10,890,780	-	10,890,780
Insurance	2,593,817	-	2,593,817
Rental expense	1,526,662	-	1,526,662
Other	6,481,718	9,530	6,491,248
Total operating expenses	<u>\$ 189,258,257</u>	<u>\$ 12,693</u>	<u>\$ 189,270,950</u>
Income from operations	<u>\$ 10,799,605</u>	<u>\$ 7,823</u>	<u>\$ 10,807,428</u>
NONOPERATING REVENUES (EXPENSES)			
Contributions	\$ 463,371	\$ -	\$ 463,371
Interest income	1,359,657	21	1,359,678
Interest expense	(882,142)	-	(882,142)
Loss on asset disposal	(221,614)	-	(221,614)
Increase in net equity of unconsolidated investees	221,623	-	221,623
Total nonoperating revenues (expenses)	<u>\$ 940,895</u>	<u>\$ 21</u>	<u>\$ 940,916</u>
Change in net position, before income tax	\$ 11,740,500	\$ 7,844	\$ 11,748,344
PROVISION FOR INCOME TAXES	<u>\$ (20,906)</u>	<u>\$ -</u>	<u>\$ (20,906)</u>
Change in net position	\$ 11,719,594	\$ 7,844	\$ 11,727,438
NET POSITION, BEGINNING OF YEAR	<u>112,639,807</u>	<u>8,239</u>	<u>112,648,046</u>
NET POSITION, END OF YEAR	<u>\$ 124,359,401</u>	<u>\$ 16,083</u>	<u>\$ 124,375,484</u>

OTHER INFORMATION



HOPKINS & ASSOCIATES
Certified Public Accountants

314 S. McCoy St. Box 224
Granville, IL 61326
1301 Peoria St.
Peru, IL 61354
726 South Main St.
Princeton, IL 61356

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, 2014, and have issued our report thereon dated September 18, 2014. 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, the Rock River Development TIF District, and the Lincolnway-Lynn Redevelopment TIF District pursuant to Subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act.

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

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

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

Hopkins & Assoc.

Granville, Illinois
September 18, 2014