

**CITY OF STERLING, ILLINOIS**

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**ANNUAL FINANCIAL REPORT**

**April 30, 2015**

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CITY OF STERLING, ILLINOIS

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of and for the year ended April 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **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; 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 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 statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the CGH Medical Center, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States 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. 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*.

An audit involves performing procedures to obtain audit 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.

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois, as of April 30, 2015, 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.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis schedule of funding progress, schedule of change in employer's net pension liability and related ratios, schedule of employer contributions, schedule of investment returns and budgetary comparison information on pages 6 through 15 and 91 through 107 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 required supplementary information in accordance with auditing standards generally accepted in the United States, 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 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's financial statements as a whole. The combining nonmajor funds, pension trust funds and component unit financial statements are presented for purposes of

additional analysis and are not a required part of the financial statements. The combining nonmajor funds, pension trust funds and component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining nonmajor funds, pension trust funds and component unit financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report October 14, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Wipac LLP*

Rockford, Illinois  
October 14, 2015

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling, Illinois as of and for the year ended April 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 14, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 opinion 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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 from 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*.

### **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wipfli LLP*

Rockford, Illinois  
October 14, 2015

## **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, 2015. 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 \$36,436,646 (net position). Of this amount, \$14,373,466 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,080,736 from the prior year. The net position of the City's business-type activities increased by \$420,889, or 3.6%, and the net position of the City's governmental activities increased by \$659,847, or 2.7%.
- In the City's governmental activities, revenues increased \$845,718, or 5.1%, and expenses increased \$624,749, or 3.9 %.
- In the City's business-type activities, revenues increased \$319,321, or 11.1%, and expenses increased \$77,391, or 2.9%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,688,968, or 48.8% 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-three 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, 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 seventeen 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 \$36,436,646 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 (52.8%) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change FY 2014 – FY 2015
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	
Current and other assets	\$ 44.5	\$ 47.5	\$ 4.7	\$ 4.4	\$ 49.2	\$ 51.9	-5.2%
Capital Assets	24.4	24.9	8.4	8.4	32.8	33.3	-1.5%
Total Assets	<u>\$ 68.9</u>	<u>\$ 72.4</u>	<u>\$ 13.1</u>	<u>\$ 12.8</u>	<u>\$ 82.0</u>	<u>\$ 85.2</u>	-3.7%
Long-Term Liabilities							
Outstanding	\$ 36.6	\$ 40.1	\$ 0.9	\$ 1.1	\$ 37.5	\$ 41.2	-9.0%
Other Liabilities	2.7	3.4	0.2	0.2	2.9	3.6	-8.3%
Total Liabilities	<u>\$ 39.3</u>	<u>\$ 43.5</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>	<u>\$ 40.4</u>	<u>\$ 44.8</u>	-9.8%
Deferred Inflows	<u>\$ 5.1</u>	<u>\$ 4.8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.1</u>	<u>\$ 4.8</u>	6.3%
Net Position:							
Invested in capital assets, net of debt	\$ 11.7	\$ 11.4	\$ 7.5	\$ 7.3	\$ 19.2	\$ 18.7	2.7%
Restricted	2.8	3.0	-	-	2.8	3.0	-6.7%
Unrestricted	9.9	9.7	4.5	4.2	14.4	13.9	3.6%
Total net position	<u>\$ 24.4</u>	<u>\$ 24.1</u>	<u>\$ 12.0</u>	<u>\$ 11.5</u>	<u>\$ 36.4</u>	<u>\$ 35.6</u>	2.2%

An additional portion of the City's net position (7.7%) represents resources that are subject to external restrictions on how they may be used. There was a decrease of \$149,584 in restricted net position reported in connection with the City's governmental funds. A large component (50.6%) of this decrease is due to writing off a revolving loan fund receivable as uncollectible in the Industrial Development Fund.

The remaining balance of *unrestricted net position* (\$14,373,466, or 39.4% of total net position) may be used to meet the City's ongoing obligations to citizens and creditors. There was an increase of \$329,830 in unrestricted net position reported in connection with the City's governmental funds. This increase in unrestricted net position is mainly due to an increase in sewer and solid waste rates over the prior year.

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 \$1,080,736 during the current fiscal year.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2014 - FY 2015
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 1.9	\$ 1.8	\$ 3.0	\$ 2.7	\$ 4.9	\$ 4.5	8.9%
Operating grants and contributions	0.2	0.3	-	-	0.2	0.3	-33.3%
Capital grants and contributions	0.8	0.3	-	-	0.8	0.3	166.7%
<b>General revenues:</b>							
Property taxes	4.6	4.4	-	-	4.6	4.4	4.5%
Other taxes	8.0	7.6	-	-	8.0	7.6	5.3%
Other	1.8	2.2	0.2	0.2	2.0	2.4	-16.7%
<b>Total revenues</b>	<b>17.3</b>	<b>16.6</b>	<b>3.2</b>	<b>2.9</b>	<b>20.5</b>	<b>19.5</b>	<b>5.1%</b>
<b>Program expenses:</b>							
General government	3.2	3.0	-	-	3.2	3.0	6.7%
Public safety	4.5	4.9	-	-	4.5	4.9	-8.2%
Public works and transportation	2.9	2.8	-	-	2.9	2.8	3.6%
Community development	1.8	1.2	-	-	1.8	1.2	50.0%
Culture and recreation	0.6	0.7	-	-	0.6	0.7	-14.3%
Other	2.3	2.0	-	-	2.3	2.0	15.0%
Interest on long-term debt	1.3	1.4	-	-	1.3	1.4	-7.1%
Sewer	-	-	1.7	1.7	1.7	1.7	0.0%
Solid waste	-	-	1.0	1.0	1.0	1.0	0.0%
<b>Total expenses</b>	<b>16.6</b>	<b>16.0</b>	<b>2.7</b>	<b>2.7</b>	<b>19.3</b>	<b>18.7</b>	<b>3.2%</b>
Change in net position	0.7	0.6	0.5	0.2	1.2	0.8	100.0%
Net position, beginning of year, as restated	23.8	23.6	11.5	11.2	35.3	34.8	1.4%
Net position, end of year	\$ 24.5	\$ 24.2	\$ 12.0	\$ 11.4	\$ 36.5	\$ 35.6	2.5%

Governmental activities increased the City's net position by \$659,847. Key elements of this increase are as follows:

- Governmental revenues increased by approximately 3.9%. This increase was mainly due to the increases in grant money received during fiscal year 2015. Not only did the City receive more revenue for the NSP2 and IGIG grants than in the prior year, it also received two additional grants, the AG NFS Grant and the Mud to Parks Grant. In total the amount of grant revenue increased \$549,817.

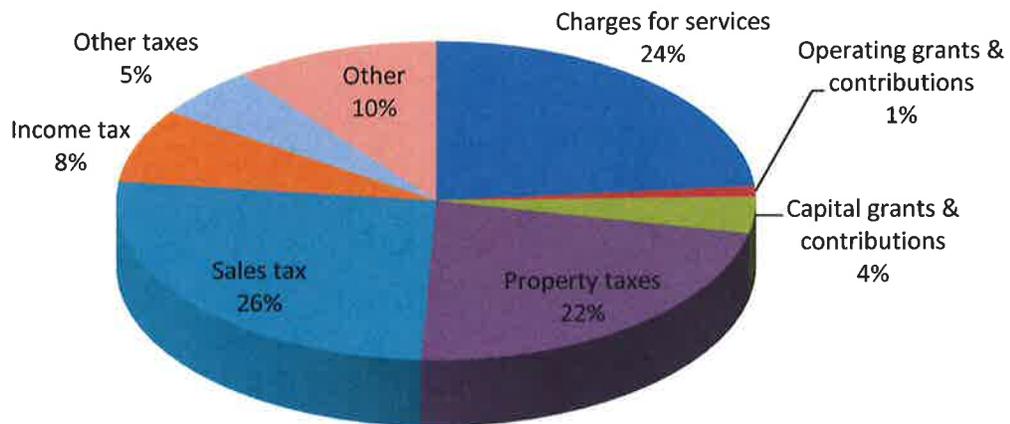
- Governmental expenses increased by approximately 3.9%. This increase is comprised of the following:
  - Increase in expenditures for grants received by the City due to additional funding and new grants. Grant expenditures increased \$554,727, or 328.7%.
  - Increase in contributions to the police and fire pension plans of \$154,538, or 14.7%.

Business-type activities increased the City’s net position by \$420,889. Key elements of this increase are as follows:

- Business-type revenues increased by approximately 11.1%. This increase is mainly related to 1) a 9.0% increase in sewer and solid waste fee revenue, and 2) an 84.8% increase in investment income.
- Business-type expenses increased by approximately 2.9%, which is mainly due to the increase in operating expense of the Sewer Fund of 3.8%.

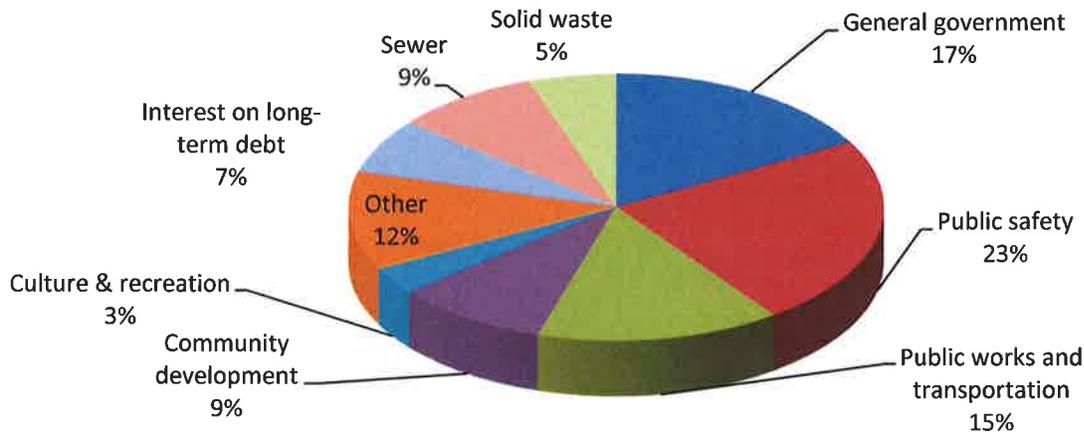
The following charts present the percentages of revenues by source and the percentages of expenses by function for the City.

### Revenues by Source



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

## Expenses by Function



During the current fiscal year, 55% 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 5% and 12% of total costs, while culture and recreation made up the bottom 3% 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 \$8,125,815, an increase of \$153,440 in comparison with the prior year. A large component of this increase is the net income in the CBD Tax Increment Allocation Fund, which continues to receive taxes after the bonds have been paid off. Approximately 27% of the total governmental fund balances amount (\$2,167,375) 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 \$4,688,968, while the total fund balance reached \$5,326,024. 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 48.8% of total General Fund expenditures, while total fund balance represents 55.4% of that same amount.

The fund balance of the City's General Fund increased by \$259,200 during the current fiscal year. A large component of this increase is the higher than expected amounts of income tax and State replacement taxes, which were \$142,501 more 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 \$4,263,547, and those for the Solid Waste Fund amounted to \$215,288. The total growth in net assets for both funds was \$365,393 and \$55,496, 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 \$129,559 (or 1.3% increase in appropriations) and can be briefly summarized as follows:

- \$14,171 in decreases in general government activities (mainly due to a decrease in salaries)
- \$24,667 in increases in public safety (mainly due to increases in overtime in fire services)
- \$69,648 in increases for public works and transportation (mainly due to increases in the CBD beautification)
- \$11,849 in miscellaneous decreases in community development activities
- \$61,272 in increases for other expenditures (mainly due to increases in legal expense and contributions to the Fire Pension)

### **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 \$32,769,338 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, and infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was approximately 1.5% (a 2.1% decrease for governmental activities and a .2% increase for business-type activities).

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

- The 5<sup>th</sup> Avenue/East Miller Road reconstruction project was completed during the fiscal year. Expenditures for the project during the fiscal year ending April 30, 2015 totaled \$542,539. Total expenditures since the beginning of the project were \$586,514.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2014 - FY 2015
Land	\$ 1.1	\$ 1.1	\$ 0.1	\$ 0.1	\$ 1.2	\$ 1.2	0.0%
Construction in progress	0.6	0.7	0.5	0.2	1.1	0.9	22.2%
Buildings and equipment	13.1	13.0	7.2	7.1	20.3	20.1	1.0%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	26.1	25.3	10.9	10.9	37.0	36.2	2.2%
Subtotal	41.7	40.9	18.7	18.3	60.4	59.2	2.0%
Less: accumulated depreciation	17.3	16.0	10.3	9.9	27.6	25.9	6.6%
Total	\$ 24.4	\$ 24.9	\$ 8.4	\$ 8.4	\$ 32.8	\$ 33.3	-1.5%

**Long-term debt.** At the end of the current fiscal year, the City had \$37,515,826 in bonds and notes outstanding, which is a decrease of \$3,712,628, or 9.0%, from the prior year.

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

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2014 - FY 2015
Bonds payable	\$ 36.2	\$ 39.6	\$ -	\$ -	\$ 36.2	\$ 39.6	-8.6%
Loans payable	-	-	0.9	1.1	0.9	1.1	-18.2%
Intergovernmental agreement	0.2	0.3	-	-	0.2	0.3	0.0%
Redevelopment agreements	0.2	0.2	-	-	0.2	0.2	0.0%
Total	\$ 36.6	\$ 40.1	\$ 0.9	\$ 1.1	\$ 37.5	\$ 41.2	-9.0%

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 \$14,575,356. The City has no outstanding general obligation debt.

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

The City’s Council and staff considered many factors while preparing the fiscal year 2016 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 2016 fiscal year are \$10,347,807, an increase of .4% from the final fiscal year 2015 budget of \$10,311,196. Small increases in 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 \$30,639, or approximately .3%, to \$10,683,093. The largest increment of this increase is as follows:

- Pension contributions are expected to increase by \$97,940, or 319.7% of the budgeted expected increase.

If these estimates are realized, the City's budgetary General Fund balance is expected to decrease by \$335,286 by the close of fiscal year 2016.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF NET POSITION**  
**April 30, 2015**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business - type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash	\$ 719,821	\$ 48,824	\$ 768,645	\$ 28,622,020
Restricted cash	-	81,793	81,793	-
Investments	7,088,521	3,554,131	10,642,652	43,746,368
Taxes receivable	4,842,696	-	4,842,696	-
Intergovernmental receivables	1,926,426	12,381	1,938,807	-
Accounts receivable (net of allowance for uncollectibles)	6,640,569	618,728	7,259,297	25,701,568
Notes receivable (net of allowance for uncollectibles)	30,116	-	30,116	-
Interest receivable	45,639	31,083	76,722	179,713
Other receivables	-	-	-	1,106,636
Estimated third-party payor settlements	-	-	-	385,963
Internal balances	(330,000)	330,000	-	-
Due from unconsolidated investees	-	-	-	148,934
Inventories	53,106	5,619	58,725	3,109,531
Prepaid expenses	-	-	-	2,654,437
Net pension asset	103,562	-	103,562	-
Capital assets:				
Land and construction in progress	1,691,493	597,124	2,288,617	-
Infrastructure, net	13,398,971	-	13,398,971	-
Other capital assets, net	9,265,265	7,816,485	17,081,750	78,637,485
Assets limited as to use	-	-	-	5,227,918
Due from CGH Medical Center - bond issue	23,425,000	-	23,425,000	-
Other assets	-	-	-	1,423,119
Net equity in unconsolidated investees	-	-	-	5,264,030
<b>Total assets</b>	<b>68,901,185</b>	<b>13,096,168</b>	<b>81,997,353</b>	<b>196,207,722</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	-	-	-	-
<b>Total assets and deferred outflows of resources</b>	<b>68,901,185</b>	<b>13,096,168</b>	<b>81,997,353</b>	<b>196,207,722</b>
<b>LIABILITIES</b>				
Accounts payable	252,172	131,190	383,362	4,342,167
Claims payable	112,530	-	112,530	-
Accrued malpractice	-	-	-	1,110,806
Accrued payroll	230,302	23,299	253,601	12,038,251
Accrued interest	64,595	5,508	70,103	-
Deposits	18,377	14,083	32,460	-
Estimated third-party payor settlements	-	-	-	8,462,646
Other current liabilities	-	-	-	4,710,514
Accrued compensated absences	312,877	29,644	342,521	-
Other postemployment benefits obligation	1,765,076	-	1,765,076	-
Long-term liabilities:				
Due within one year	3,583,152	171,426	3,754,578	2,884,901
Due in more than one year	33,014,659	746,589	33,761,248	23,696,752
<b>Total liabilities</b>	<b>39,353,740</b>	<b>1,121,739</b>	<b>40,475,479</b>	<b>57,246,037</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - property taxes, licenses and grants	5,085,228	-	5,085,228	-
<b>NET POSITION</b>				
Net investment in capital assets	11,745,729	7,495,594	19,241,323	52,055,832
Restricted for:				
Special revenue	478,161	-	478,161	-
Non-spendable - inventory and prepaid expenses	53,106	-	53,106	-
Debt service	44	-	44	-
Health development	-	-	-	5,227,918
Capital projects	2,290,546	-	2,290,546	-
Unrestricted	9,894,631	4,478,835	14,373,466	81,677,935
<b>Total net position</b>	<b>\$ 24,462,217</b>	<b>\$ 11,974,429</b>	<b>\$ 36,436,646</b>	<b>\$ 138,961,685</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 68,901,185</b>	<b>\$ 13,096,168</b>	<b>\$ 81,997,353</b>	<b>\$ 196,207,722</b>

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

CITY OF STERLING, ILLINOIS  
STATEMENT OF ACTIVITIES  
Year Ended April 30, 2015

FUNCTIONS/PROGRAMS	Program Revenues					Net (Expense) Revenue and Change in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Total	
						Business-Type Activities	Total		
Primary government									
Governmental activities:									
General government	\$ 3,213,150	\$ 1,549,428	\$ 42,139	\$ 10,000	\$ (1,611,583)	\$ -	\$ (1,611,583)	\$ -	
Public safety	4,473,638	203,872	69,687	44,773	(4,155,306)	-	(4,155,306)	-	
Public works and transportation	2,857,786	-	513,617	-	(2,344,169)	-	(2,344,169)	-	
Community development	1,810,496	103,329	50,000	684,255	(972,912)	-	(972,912)	-	
Culture and recreation	647,300	19,957	62,535	26,000	(538,808)	-	(538,808)	-	
Other	2,316,268	-	-	-	(2,316,268)	-	(2,316,268)	-	
Interest on long-term debt	1,281,306	-	-	-	(1,281,306)	-	(1,281,306)	-	
Total governmental activities	16,599,944	1,876,586	737,978	765,028	(13,220,352)	-	(13,220,352)	-	
Business-type activities:									
Sewer	1,715,726	1,969,595	-	-	-	253,869	253,869	-	
Solid waste	1,030,742	1,024,250	-	-	-	(6,492)	(6,492)	-	
Total business-type activities	2,746,468	2,993,845	-	-	-	247,377	247,377	-	
Total primary government	\$ 19,346,412	\$ 4,870,431	\$ 737,978	\$ 765,028	\$ (13,220,352)	\$ 247,377	\$ (12,972,975)	\$ -	
Component unit									
CGH Medical Center	\$ 193,720,407	\$ 199,816,815	\$ 2,416,388	\$ -	\$ -	\$ -	\$ -	\$ 8,512,796	(14,050)
Foreign Fire Insurance Board	14,050	-	-	-	-	-	-	-	-
General Revenues:									
Property taxes, levied for general purposes					4,631,040	-	4,631,040	-	
Sales tax					5,404,652	-	5,404,652	-	
Personal property replacement tax					496,097	61,568	557,665	-	
Income tax and surcharge					1,548,462	-	1,548,462	-	
Fire protection revenue					278,633	-	278,633	-	
Investment income					119,477	121,414	240,891	1,318,021	
Increase in net equity in unconsolidated investees					-	-	-	136,924	
Other					1,615,968	16,618	1,632,586	4,652,472	
Special item - gain (loss) on disposal of asset					(240,630)	412	(240,218)	(19,962)	
Transfers - internal activity					26,500	(26,500)	-	-	
Total general revenues and transfers					13,880,199	173,512	14,053,711	6,087,455	
Change in net position					659,847	420,889	1,080,736	14,586,201	
Prior period adjustment					(271,181)	-	(271,181)	-	
NET POSITION, BEGINNING OF YEAR					24,073,551	11,553,540	35,627,091	124,375,484	
NET POSITION, END OF YEAR					\$ 24,462,217	\$ 11,974,429	\$ 36,436,646	\$ 138,961,685	

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, 2015**

	General Fund	Capital Fund	2012		Lincolnway-		Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
			CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	Lynn Tax Increment Allocation Fund				
<b>ASSETS</b>									
Cash	\$ 9,597	\$ -	\$ 44	\$ -	\$ -	\$ -	\$ -	\$ 438,857	\$ 448,498
Investments	2,244,591	1,572,831	-	100,000	-	-	1,020,722	1,708,813	6,646,957
Receivables									
Taxes	2,789,208	-	-	311,904	162,884	562,145	-	1,016,555	4,842,696
Intergovernmental	1,380,222	148,212	-	20,000	-	-	-	377,992	1,926,426
Accounts receivable	38,532	-	-	-	-	10,574	-	5,429	54,535
Notes	-	-	-	-	-	-	-	30,116	30,116
Interest	5,535	1,634	-	-	-	-	-	32,391	39,560
Inventory	53,106	-	-	-	-	-	-	-	53,106
Due from other funds	1,959,924	486,571	-	870,689	-	-	-	1,032,197	4,349,381
<b>TOTAL ASSETS</b>	<b>\$ 8,480,715</b>	<b>\$ 2,209,248</b>	<b>\$ 44</b>	<b>\$ 1,302,593</b>	<b>\$ 162,884</b>	<b>\$ 1,593,441</b>	<b>\$ 4,642,350</b>	<b>\$ 18,391,275</b>	
<b>LIABILITIES</b>									
Accounts payable	\$ 69,123	\$ 66,457	-	\$ -	-	\$ -	\$ 82,431	\$ 34,161	\$ 252,172
Accrued payroll	213,772	-	-	-	-	-	-	16,530	230,302
Deposits	2,900	-	-	-	-	-	-	15,477	18,377
Due to other funds	-	-	-	852,500	90,304	2,488,391	-	1,248,186	4,679,381
Total liabilities	285,795	66,457	-	852,500	90,304	2,570,822	1,314,354	5,180,232	
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Deferred inflows - property taxes	2,868,896	81,000	-	311,904	162,884	562,145	1,098,399	5,085,228	
<b>FUNDEQUITY</b>									
Fund balance	518,030	-	-	-	-	-	-	432,616	950,646
Nonspendable	119,026	-	44	138,189	-	-	-	2,688,744	2,946,003
Restricted	-	2,061,791	-	-	-	-	-	-	2,061,791
Committed	4,688,968	-	-	-	(90,304)	(1,539,526)	(891,763)	2,167,375	
Unassigned	5,326,024	2,061,791	44	138,189	(90,304)	(1,539,526)	2,229,597	8,125,815	
Total fund equity	\$ 8,480,715	\$ 2,209,248	\$ 44	\$ 1,302,593	\$ 162,884	\$ 1,593,441	\$ 4,642,350	\$ 18,391,275	
<b>TOTAL LIABILITIES AND FUND EQUITY</b>									

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

**CITY OF STERLING, ILLINOIS**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE**  
**TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**Year Ended April 30, 2015**

Total governmental fund balances		\$ 8,125,815
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 \$17,313,788		24,355,729
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		5,237,108
Advance for theater renovation loan		1,292,237
Advance of bond proceeds to CGH Medical Center		23,425,000
Net pension asset		103,562
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(33,130,000)
Tax increment bonds payable		(2,905,000)
Special service area bonds payable		(160,407)
Redevelopment agreements payable		(153,000)
Notes payable		(249,406)
Other postemployment benefit obligation		(1,765,076)
Compensated absences		(312,877)
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.		(64,595)
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	\$ 775,657	
Liabilities	<u>(112,530)</u>	<u>663,127</u>
<b>Total net position - governmental activities</b>		<b><u>\$ 24,462,217</u></b>

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

**CITY OF STERLING, ILLINOIS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE (DEFICIT)**  
**GOVERNMENTAL FUNDS**  
**Year Ended April 30, 2015**

	General Fund	Capital Fund	2012 CGH Medical Center Bond Fund	Lincolnway-			Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
				CBD Tax Increment Allocation Fund	Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund			
<b>REVENUES</b>									
Taxes	\$ 6,703,444	\$ 1,030,189	\$ -	\$ 433,402	\$ 160,412	\$ 524,339	\$ 1,183,906	\$ 10,035,692	
Intergovernmental	2,351,942	-	-	-	-	-	1,346,711	3,698,653	
Licenses and permits	718,598	-	-	-	-	-	-	718,598	
Fines and penalties	203,872	-	-	-	-	-	-	203,872	
Charges for services	65,697	17,980	-	-	-	-	240,548	324,225	
Investment income	38,380	28,161	-	348	28	155	37,374	104,446	
Donations	45,453	10,000	-	-	-	-	114,322	169,775	
Other	338,041	-	3,397,343	-	461,788	10,574	135,992	4,343,738	
Total revenues	10,465,427	1,086,330	3,397,343	433,750	622,228	535,068	3,058,853	19,598,999	
<b>EXPENDITURES</b>									
Current									
General government	439,883	238	-	-	-	-	746,446	1,186,567	
Public safety	4,297,075	-	-	-	-	-	8,526	4,305,601	
Public works and transportation	1,194,997	471,396	-	-	-	-	339,308	2,005,701	
Community development	288,002	25,240	-	8,725	160,930	594,061	717,881	1,794,839	
Culture and recreation	-	-	-	-	-	-	669,524	669,524	
Other	3,284,840	-	318	-	-	-	-	3,285,158	
Debt service									
Principal	23,256	-	2,570,000	25,000	200,000	230,000	496,656	3,544,912	
Interest	651	-	827,025	-	261,788	6,240	188,324	1,284,028	
Capital outlay	87,992	839,863	-	-	-	-	247,601	1,175,456	
Total expenditures	9,616,696	1,336,737	3,397,343	33,725	622,718	830,301	3,414,266	19,251,786	
Excess (deficiency) of revenues over expenditures	848,731	(250,407)	-	400,025	(490)	(295,233)	(355,413)	347,213	
<b>OTHER FINANCING SOURCES (USES)</b>									
Advance for theater renovation	-	(237,486)	-	-	-	-	-	(237,486)	
Sale of property	8,969	-	-	-	-	-	8,244	17,213	
Operating transfers in	26,500	325,000	-	-	-	-	300,000	651,500	
Operating transfers out	(625,000)	-	-	-	-	-	-	(625,000)	
Total other financing sources (uses)	(589,531)	87,514	-	-	-	-	308,244	(193,773)	
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	259,200	(162,893)	-	400,025	(490)	(295,233)	(47,169)	153,440	
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	5,066,824	2,224,684	44	(261,836)	(89,814)	(1,244,293)	2,276,766	7,972,375	
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	\$ 5,326,024	\$ 2,061,791	\$ 44	\$ 138,189	\$ (90,304)	\$ (1,539,526)	\$ 2,229,597	\$ 8,125,815	

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, 2015**

Net change in fund balances - total governmental funds \$ 153,440

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	\$ 237,486	
Payments	(200,000)	37,486

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current year. (339,054)

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		(194,342)
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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	3,544,912	
Payment of CGH Medical Center bonds	(2,570,000)	
Change in compensated absences	10,817	
Change in net pension obligation	72,016	
Accrued interest	<u>2,722</u>	1,060,467

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>(58,150)</u>
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**Change in net position of governmental activities \$ 659,847**

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, 2015**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>				
Current assets				
Cash	\$ 195	\$ 48,629	\$ 48,824	\$ 271,323
Restricted cash	81,793	-	81,793	-
Investments	3,539,850	14,281	3,554,131	441,564
Intergovernmental receivable	-	12,381	12,381	-
Accounts receivable	392,932	225,796	618,728	56,691
Accrued interest	31,083	-	31,083	6,079
Due from other funds	330,000	-	330,000	-
Inventory	4,497	1,122	5,619	-
Total current assets	<u>4,380,350</u>	<u>302,209</u>	<u>4,682,559</u>	<u>775,657</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	7,156,826	18,981	7,175,807	-
Inceptors	1,563,440	-	1,563,440	-
Storm sewers	5,530,742	-	5,530,742	-
Separation work	3,801,298	-	3,801,298	-
Construction in progress	448,526	-	448,526	-
	<u>18,649,430</u>	<u>18,981</u>	<u>18,668,411</u>	<u>-</u>
Accumulated depreciation	<u>10,243,413</u>	<u>11,389</u>	<u>10,254,802</u>	<u>-</u>
Total capital assets (net of accumulated depreciation)	<u>8,406,017</u>	<u>7,592</u>	<u>8,413,609</u>	<u>-</u>
Total assets	<u>12,786,367</u>	<u>309,801</u>	<u>13,096,168</u>	<u>775,657</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total assets and deferred outflows of resources	<u>12,786,367</u>	<u>309,801</u>	<u>13,096,168</u>	<u>775,657</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	50,799	80,391	131,190	-
Claims payable	-	-	-	112,530
Accrued payroll	20,905	2,394	23,299	-
Overpayments	13,843	240	14,083	-
Accrued vacation	25,748	3,896	29,644	-
Accrued interest	5,508	-	5,508	-
Current portion of notes payable	171,426	-	171,426	-
Total current liabilities	<u>288,229</u>	<u>86,921</u>	<u>375,150</u>	<u>112,530</u>
Noncurrent liabilities				
Notes payable (net of current portion)	746,589	-	746,589	-
Total noncurrent liabilities	<u>746,589</u>	<u>-</u>	<u>746,589</u>	<u>-</u>
Total liabilities	<u>1,034,818</u>	<u>86,921</u>	<u>1,121,739</u>	<u>112,530</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>NET POSITION</b>				
Net investment in capital assets	7,488,002	7,592	7,495,594	-
Unrestricted	4,263,547	215,288	4,478,835	663,127
Total net position	<u>11,751,549</u>	<u>222,880</u>	<u>11,974,429</u>	<u>663,127</u>
Total liabilities and net position	<u>\$ 12,786,367</u>	<u>\$ 309,801</u>	<u>\$ 13,096,168</u>	<u>\$ 775,657</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, 2015**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities -</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUE</b>				
Sewer use and hook-up fees	\$ 1,969,595	\$ -	\$ 1,969,595	\$ -
Solid waste service fees	-	1,024,250	1,024,250	-
Employer contributions	-	-	-	1,346,058
Employee contributions	-	-	-	408,975
Other revenue	16,618	-	16,618	-
Total operating revenue	<u>1,986,213</u>	<u>1,024,250</u>	<u>3,010,463</u>	<u>1,755,033</u>
<b>OPERATING EXPENSES</b>				
Administration	-	-	-	239,609
Life insurance premiums	-	-	-	8,281
Waste water treatment plant	599,185	-	599,185	-
Solid waste disposal	-	1,026,946	1,026,946	-
Maintenance	21,875	-	21,875	-
Billing and collection	265,425	-	265,425	-
Non-departmental	438,522	-	438,522	-
Benefit payments	-	-	-	1,580,324
Depreciation	363,550	3,796	367,346	-
Total operating expenses	<u>1,688,557</u>	<u>1,030,742</u>	<u>2,719,299</u>	<u>1,828,214</u>
Operating income (loss)	<u>297,656</u>	<u>(6,492)</u>	<u>291,164</u>	<u>(73,181)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	61,568	61,568	-
Interest income	116,058	8	116,066	17,311
Net change in fair value of investments	5,348	-	5,348	(2,280)
Interest expense	(27,169)	-	(27,169)	-
Total nonoperating revenues (expenses)	<u>94,237</u>	<u>61,576</u>	<u>155,813</u>	<u>15,031</u>
Net income (loss) before other financing sources (uses)	<u>391,893</u>	<u>55,084</u>	<u>446,977</u>	<u>(58,150)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	-	412	412	-
Operating transfers out	(26,500)	-	(26,500)	-
Total other financing sources (uses)	<u>(26,500)</u>	<u>412</u>	<u>(26,088)</u>	<u>-</u>
Change in net position	365,393	55,496	420,889	(58,150)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>11,386,156</u>	<u>167,384</u>	<u>11,553,540</u>	<u>721,277</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 11,751,549</u>	<u>\$ 222,880</u>	<u>\$ 11,974,429</u>	<u>\$ 663,127</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, 2015**

	<b>Business-type Activities - Enterprise Fund Sewer</b>	<b>Business-type Activities - Enterprise Fund Solid Waste</b>	<b>Total Business-type Activities</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts (disbursements) from interfund services provided	\$ (312,390)	\$ (17,610)	\$ (330,000)	\$ 1,755,033
Receipts from customers	2,004,519	1,045,182	3,049,701	-
Payments to employees	(481,243)	(54,471)	(535,714)	-
Payments to suppliers	(830,156)	(972,194)	(1,802,350)	-
Payments for premiums, claims, and related services	-	-	-	(1,915,939)
Net cash provided by (used in) operating activities	<u>380,730</u>	<u>907</u>	<u>381,637</u>	<u>(160,906)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
State replacement tax	-	58,894	58,894	-
Operating transfers to other funds	(26,500)	-	(26,500)	-
Net cash provided by (used in) non-capital financing activities	<u>(26,500)</u>	<u>58,894</u>	<u>32,394</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on notes payable	(167,716)	-	(167,716)	-
Interest paid on notes payable	(28,056)	-	(28,056)	-
Capital assets acquired	(387,062)	-	(387,062)	-
Proceeds from the sale of capital assets	-	412	412	-
Net cash provided by (used in) capital financing activities	<u>(582,834)</u>	<u>412</u>	<u>(582,422)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(360,000)	(12,960)	(372,960)	(26,505)
Proceeds from the sale of investments	271,219	-	271,219	10,845
Interest received	116,724	8	116,732	16,530
Net cash provided by (used in) investing activities	<u>27,943</u>	<u>(12,952)</u>	<u>14,991</u>	<u>870</u>
<b>NET CHANGE IN CASH</b>	(200,661)	47,261	(153,400)	(160,036)
<b>CASH, BEGINNING OF YEAR</b>	<u>282,649</u>	<u>1,368</u>	<u>284,017</u>	<u>431,359</u>
<b>CASH, END OF YEAR</b>	<u>\$ 81,988</u>	<u>\$ 48,629</u>	<u>\$ 130,617</u>	<u>\$ 271,323</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 297,656	\$ (6,492)	\$ 291,164	\$ (73,181)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	363,550	3,796	367,346	-
Effects of changes in operating assets and liabilities				
Accounts receivable	14,086	21,001	35,087	(51,896)
Inventory	3,956	1,014	4,970	-
Due from other funds	(312,390)	-	(312,390)	-
Accounts payable	14,044	1,404	15,448	-
Claims payable	-	-	-	(35,829)
Accrued payroll	88	10	98	-
Overpayments	4,220	(69)	4,151	-
Compensated absences	(4,480)	(2,147)	(6,627)	-
Due to other funds	-	(17,610)	(17,610)	-
	<u>\$ 380,730</u>	<u>\$ 907</u>	<u>\$ 381,637</u>	<u>\$ (160,906)</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, 2015**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Committee Fund</b>	<b>Agency Blackhawk Area Task Force Fund</b>
<b>ASSETS</b>			
Cash	\$ 159,183	\$ 1,188	\$ 572,589
Accrued interest receivable	45,499	-	-
Investments, at fair value	<u>24,971,309</u>	<u>-</u>	<u>108,079</u>
<b>TOTAL ASSETS</b>	<u>25,175,991</u>	<u>1,188</u>	<u>680,668</u>
 <b>LIABILITIES</b>	 <u>-</u>	 <u>-</u>	 <u>8,836</u>
 <b>NET POSITION</b>	 <u>\$ 25,175,991</u>	 <u>\$ 1,188</u>	 <u>\$ 671,832</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, 2015**

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund	Agency Blackhawk Area Task Force Fund
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 1,255,510	\$ -	\$ -
Plan members	267,999	-	-
Total contributions	<u>1,523,509</u>	<u>-</u>	<u>-</u>
Investment income			
Interest earned	759,489	-	553
Net change in fair value	830,120	-	-
Total investment income	<u>1,589,609</u>	<u>-</u>	<u>553</u>
Less: investment expense	(132,098)	-	-
Net investment income	<u>1,457,511</u>	<u>-</u>	<u>553</u>
Federal forfeiture	-	-	56,448
State forfeiture	-	-	222,476
Drug fines and restitution	-	-	12,774
Other revenue	20	-	4,869
Total other revenue	<u>20</u>	<u>-</u>	<u>296,567</u>
Total additions	<u>2,981,040</u>	<u>-</u>	<u>297,120</u>
<b>DEDUCTIONS</b>			
Administrative	42,518	-	-
Benefits	2,230,947	-	-
Other	-	-	172,190
Total deductions	<u>2,273,465</u>	<u>-</u>	<u>172,190</u>
<b>CHANGE IN NET POSITION</b>	<b>707,575</b>	<b>-</b>	<b>124,930</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>24,468,416</u>	<u>1,188</u>	<u>546,902</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 25,175,991</u>	<u>\$ 1,188</u>	<u>\$ 671,832</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, 2015**

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

**REPORTING ENTITY**

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

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

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

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

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

**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, 2015**

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

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

In the government-wide Statement of Net 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, 2015**

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

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

The following fund types are used by the City:

**Governmental Funds**

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

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

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

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

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

**Proprietary Funds**

The focus of proprietary fund measurement is upon determination of operating income, changes in net 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, 2015**

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

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

**Proprietary Funds (Continued)**

**Enterprise Funds (Continued)**

maintenance, public policy, management control, accountability, or other purposes. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds*, the City has chosen to apply all GASB pronouncements.

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, 2015**

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

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

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

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

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**BASIS OF ACCOUNTING (CONTINUED)**

**Accrual**

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

**Modified Accrual**

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

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

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**ESTIMATES (CONTINUED)**

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 21, 2014 and was amended on April 20, 2015. 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, 2015**

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

**INVESTMENTS**

State statutes authorize the government to invest in the following:

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

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

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

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans, if any, are also classified as "due from other funds" or "due to other funds" on the balance sheet. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net 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, 2015**

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

**CAPITAL ASSETS**

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

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

GASB Statement No. 34 required the City to report and depreciate newly acquired infrastructure assets effective for the year ended April 30, 2004. Infrastructure assets include roads, bridges, underground pipe, traffic signals, etc. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008 (other than proprietary funds). The City implemented the general provisions of GASB Statement No. 34 in the year ended April 30, 2004 and is reporting infrastructure prospectively in accordance with the Statement.

**PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each year at the time the budget for the ensuing year is passed and is extended against the assessed valuation of the City on January 1 of that year. Taxes are due and payable in two installments in June and September.

Property taxes are accrued as a receivable in the period in which the City has an enforceable lien on property. However, recognition of the revenue is deferred until the property taxes are both measurable and available and in the period for which levied. Property tax revenue recorded on the City for the year ended April 30, 2015 represents installments of the 2013 property taxes which were received during 2014. The 2014 property tax levy has been deferred at April 30, 2015, as it was budgeted for fiscal year 2016.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**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, 2015**

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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, 2015**

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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**

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 \$1,571,417 and the bank balances totaled \$1,880,500. Cash on hand was \$11,981.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 2. Deposits and Investments (Continued)

**Primary Government (Continued)**

At year end, the investment maturities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 or more</u>
Certificates of Deposit	\$ 1,551,953	\$ 1,142,284	\$ 282,242	\$ 127,427	\$ -
Money Market	1,846,635	1,846,635	-	-	-
U.S. Treasuries	10,712,227	1,246,222	6,875,699	2,081,746	508,560
U.S. Agencies	3,131,124	-	3,995	96,071	3,031,058
IL Treas. Investment	2,492,841	2,492,841	-	-	-
Mutual Funds	9,929,597	9,929,597	-	-	-
Annuities	2,678,511	2,678,511	-	-	-
Stock	3,379,152	3,379,152	-	-	-
	<u>\$ 35,722,040</u>	<u>\$ 22,715,242</u>	<u>\$ 7,161,936</u>	<u>\$ 2,305,244</u>	<u>\$ 3,539,618</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, 2015, the City had \$2,492,841 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, 2015**

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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, 2015, 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, 2015, more than 5% of the City's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 6.80% of the City's total investments and is reported in the Fire Pension Trust Fund.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2015, was as follows:

	<u>Balance at May 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2015</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 1,045,385	\$ -	\$ -	\$ 1,045,385
Construction in Progress	710,475	779,988	844,355	646,108
Total capital assets not being depreciated	<u>\$ 1,755,860</u>	<u>\$ 779,988</u>	<u>\$ 844,355</u>	<u>\$ 1,691,493</u>
Capital Assets being depreciated				
Buildings	\$ 8,062,912	\$ 30,000	\$ -	\$ 8,092,912
Equipment	4,960,482	144,434	110,741	4,994,175
Land Improvements	787,920	-	-	787,920
Infrastructure	25,295,471	807,546	-	26,103,017
Total capital assets being depreciated	<u>\$ 39,106,785</u>	<u>\$ 981,980</u>	<u>\$ 110,741</u>	<u>\$ 39,978,024</u>
Less accumulated depreciation for				
Buildings	\$ 765,436	\$ 212,351	\$ -	\$ 977,787
Equipment	3,052,371	369,090	110,741	3,310,720
Land Improvements	305,372	15,863	-	321,235
Infrastructure	11,850,341	853,705	-	12,704,046
Total accumulated depreciation	<u>\$ 15,973,520</u>	<u>\$ 1,451,009</u>	<u>\$ 110,741</u>	<u>\$ 17,313,788</u>
Total capital assets being depreciated, net	<u>\$ 23,133,265</u>	<u>\$ (469,029)</u>	<u>\$ -</u>	<u>\$ 22,664,236</u>
Governmental activities capital assets, net	<u>\$ 24,889,125</u>	<u>\$ 310,959</u>	<u>\$ 844,355</u>	<u>\$ 24,355,729</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2015</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in Progress	164,697	360,012	76,183	448,526
Total capital assets not being depreciated	<u>\$ 313,295</u>	<u>\$ 360,012</u>	<u>\$ 76,183</u>	<u>\$ 597,124</u>
Capital Assets being depreciated				
Buildings and equipment	\$ 7,148,758	\$ 27,049	\$ -	\$ 7,175,807
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,454,559	76,183	-	5,530,742
Sewer separation work	3,801,298	-	-	3,801,298
Total capital assets being depreciated	<u>\$ 17,968,055</u>	<u>\$ 103,232</u>	<u>\$ -</u>	<u>\$ 18,071,287</u>
Less accumulated depreciation for				
Buildings and equipment	\$ 4,093,664	\$ 153,092	\$ -	\$ 4,246,756
Interceptors, mains, and pump stations	1,142,219	26,886	-	1,169,105
Storm sewers	2,127,336	111,457	-	2,238,793
Sewer separation work	2,524,239	75,909	-	2,600,148
Total accumulated depreciation	<u>\$ 9,887,458</u>	<u>\$ 367,344</u>	<u>\$ -</u>	<u>\$ 10,254,802</u>
Total capital assets being depreciated, net	<u>\$ 8,080,597</u>	<u>\$ (264,112)</u>	<u>\$ -</u>	<u>\$ 7,816,485</u>
Business-type activities capital assets, net	<u>\$ 8,393,892</u>	<u>\$ 95,900</u>	<u>\$ 76,183</u>	<u>\$ 8,413,609</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 3. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 284,951
Public safety	98,228
Public works and transport.	828,185
Community Development	17,657
Culture and recreation	30,960
Other	80,287
Total depreciation expense	<u>\$ 1,340,268</u>
Business-type activities:	
Sewer	\$ 363,548
Solid waste	3,796
Total depreciation expense	<u>\$ 367,344</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 \$80,000 per employee and \$1,481,915 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, 2014	\$ 148,359
Claims incurred	1,580,324
Claims paid	(1,616,153)
Claims payable, April 30, 2015	<u>\$ 112,530</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2015 are summarized as follows:

	<b>Balance at April 30, 2014</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at April 30, 2015</b>	<b>Due within 1 year</b>
<b>Governmental activities:</b>					
Bonds payable	\$ 39,645,406	\$ -	\$ 3,450,000	\$ 36,195,406	\$ 3,198,619
Loans payable	23,255	-	23,255	-	-
Redevelopment agreements	178,000	-	25,000	153,000	25,000
Intergovernmental agrmts	296,062	-	46,656	249,406	46,656
Compensated absences	323,694	-	10,817	312,877	312,877
	<u>\$ 40,466,417</u>	<u>\$ -</u>	<u>\$ 3,555,728</u>	<u>\$ 36,910,689</u>	<u>\$ 3,583,152</u>
<b>Business-type activities:</b>					
Notes payable	\$ 1,085,731	\$ -	\$ 167,716	\$ 918,015	\$ 171,426
Compensated absences	36,271	-	6,627	29,644	29,644
	<u>\$ 1,122,002</u>	<u>\$ -</u>	<u>\$ 174,343</u>	<u>\$ 947,659</u>	<u>\$ 201,070</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:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 155,000	\$ 11,813
2017	160,000	6,000
	<u>\$ 315,000</u>	<u>\$ 17,813</u>

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

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

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

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<b>April 30</b>		
2016	\$ 58,619	\$ 12,079
2017	31,973	6,107
2018	33,891	4,189
2019	35,923	2,155
	<u>\$ 160,406</u>	<u>\$ 24,530</u>

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

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

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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<b>April 30</b>		
2016	\$ 255,000	\$ 110,390
2017	280,000	100,700
2018	310,000	90,060
2019	340,000	78,280
2020	375,000	65,360
2021-2023	1,345,000	105,260
	<u>\$ 2,905,000</u>	<u>\$ 550,050</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. The bonds were paid off in the fiscal year ended April 30, 2015.

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

During the fiscal year ended April 30, 2011, the City issued \$6,120,000 of General Obligation Bonds (Alternate Revenue Source), Series 2010A for the Lincolnway-Lynn Tax Increment Financing Project. These bonds are payable solely from the taxes levied in the tax increment allocation district. The bonds are due in annual installments due on May 1 each year with interest is at 2.50% to 5.25% due May 1 and November 1 each year through May 1, 2031.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ -	\$ 128,044
2017	210,000	252,937
2018	225,000	246,075
2019	235,000	238,133
2020	250,000	229,152
2021-2025	1,510,000	967,887
2026-2030	2,090,000	539,564
2031-2032	960,000	49,088
	<u>\$ 5,480,000</u>	<u>\$ 2,650,880</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, 2015**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b>Year Ending</b>		
<b>April 30</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 100,000	\$ 146,020
2017	115,000	143,682
2018	120,000	140,709
2019	135,000	137,508
2020	145,000	133,536
2021-2025	835,000	593,027
2026-2030	1,080,000	417,807
2031-2035	1,380,000	175,931
	<u>\$ 3,910,000</u>	<u>\$ 1,888,220</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, 2015**

Note 5. Long-Term Debt (Continued)

**Governmental Activities (Continued)**

**Bonds Payable (Continued)**

Payments are due as follows:

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>
<u>April 30</u>		
2016	\$ 2,630,000	\$ 400,663
2017	2,695,000	735,575
2018	2,750,000	668,200
2019	2,830,000	585,700
2020	2,930,000	500,800
2021-2023	9,590,000	778,200
	<u>\$ 23,425,000</u>	<u>\$ 3,669,138</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. The loan was paid off in the fiscal year ended April 30, 2015.

**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, 2015, 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, 2015, the balance is \$85,000.

**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, 2015**

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, 2015, the balance is \$249,406.

**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, 2015 are as follows:

Governmental activities	<u>\$ 312,877</u>
Business-type activities	<u><u>\$ 29,644</u></u>

**Net Pension Obligations (Assets)**

At April 30, 2015, the City had the following net pension obligations:

Police pension (asset)	\$ (146,745)
Fire Pension	43,183
Net pension asset, April 30, 2015	<u><u>\$ (103,562)</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, 2015, the balance is \$405,067.

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, 2015**

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, 2015, the balance is \$512,948.

**Debt Service Requirement to Maturity**

<b>Fiscal Year</b>	<b>1997 EPA Loan</b>		<b>1996 EPA Loan</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
<b>Ending April 30</b>				
2016	\$ 131,167	\$ 10,766	\$ 40,259	\$ 12,567
2017	134,985	6,947	43,323	11,529
2018	138,915	3,018	43,374	10,465
2019	-	-	44,465	9,374
2020	-	-	45,584	8,255
2021-2025	-	-	245,710	23,486
2026	-	-	50,233	927
	<b>\$ 405,067</b>	<b>\$ 20,731</b>	<b>\$ 512,948</b>	<b>\$ 76,603</b>

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 2015:

Assessed valuation - 2014 \$ 168,989,633

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 6. Legal Debt Margin

Statutory Debt Limitation (8.625% of assessed limitation)		\$ 14,575,356
Total debt:		
Alternate revenue source bonds	33,130,000	
Tax increment revenue bonds	2,905,000	
Special service area bonds	160,406	
EPA loans payable	918,015	37,113,421
Less:		
Alternate revenue source bonds	33,130,000	
Tax increment revenue bonds	2,905,000	
Special service area bonds	160,406	
EPA loans payable	918,015	37,113,421
Total amount of debt applicable to debt limit		-
Legal Debt Margin		\$ 14,575,356

Note 7. Employee Retirement Systems

**Plan Descriptions**

The City contributes to three defined benefit pension plans, the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer public employee retirement system; the Police Pension Plan, which is a single-employer pension plan; and the Firefighters' Pension Plan, which is also a single-employer pension plan. The benefits, benefit levels, employee contributions and employer contributions for all three plans are governed by Illinois Compiled Statutes (ILCS) and can only be amended by the Illinois General Assembly. IMRF issues a publicly available report that includes financial statements and supplementary information for the plan as a whole, but not for individual employers. That report can be obtained from IMRF, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

**Illinois Municipal Retirement**

All employees (other than those covered by the Police or Firefighters' Pension Plans) hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members. IMRF provides two tiers of pension benefits. Employees hired prior to January 1, 2011 are eligible for Tier 1 benefits. For Tier 1 employees, pension benefits vest after 8 years of service. Participating members who retire at age 55 (reduced benefits) or after age 60 (full benefits) with 8 years of

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems

**Illinois Municipal Retirement (Continued)**

credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter.

Employees hired on or after January 1, 2011 are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after 10 years of service. Participating members who retire at age 62 (reduced benefits) or after age 67 (full benefits) with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter.

IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute. Participating members are required to contribute 4.50% of their annual salary to IMRF. The City is required to contribute the remaining amounts necessary to fund IMRF as specified by statute. The employer contribution and required contribution for 2014 was 11.53% of covered payroll.

**Police Pension**

Plan Administration

Police sworn personnel are covered by the Police Pension Plan, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contributions levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Police Pension Plan as a pension trust fund.

The plan is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active police employees.

Plan Membership

At April 30, 2015, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	23
Inactive plan members entitled to but not yet receiving benefits	3
Current employees	<u>28</u>
Total	<u>54</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Police Pension**

Benefits Provided

The Police Pension Plan provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier I employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to 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 annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 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 benefit 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% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of credible service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1<sup>st</sup> after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% of ½ of the change in the Consumer Price Index for the proceeding calendar year.

Contributions

Employees are required by ILCS 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. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Contributions (Continued)

the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2015, the City's contribution was 39.70% of covered payroll.

Investment Policy

Illinois Compiled Statutes ILCS) limit the Police Pension Fund's (the Fund) investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment grade corporate bonds, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds and corporate equity securities and real estate investment trusts. During the year, no changes were made to the investment policy.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Investment Policy (Continued)

The Fund's investment policy in accordance with the ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Expected Real Rate of Return
Fixed income	40%-50%	0.60%
Equities	40%-60%	5.79%
Cash and cash equivalents	5%-10%	0.00%

ILCS limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in April 2015 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2015 are listed in the table above.

Investment Valuations

All investments in the plan are stated at fair value and are recorded as of the trade date. Fair value is based on the quoted market prices as of April 30, 2015 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2015, more than 5% of the Fund's investments were in the Transamerica Landmark variable annuity and the MetLife fixed annuity. These annuities are 18.47% of the Fund's total investments

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Investment Rate of Return

For the year ended April 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy requires all bank balances to be covered by federal depository insurance.

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2015:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	10 or more
Fixed income securities	\$ 4,013,107	\$ 502,554	\$ 1,901,231	\$ 519,176	\$ 1,090,146

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The fixed income securities are not rated Baa3 to Aaa by Moody's. However, certain fixed income securities are not rated.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund's agent separate from where the investment was purchased in the Fund's name. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

Net Pension Liability

The components of the net pension liability of the Police Pension Plan as of April 30, 2015 were as follows:

Total pension liability	\$ 21,821,570
Plan fiduciary net position	13,010,645
City's net pension liability	8,810,925
Plan fiduciary net position as a percentage of the total pension liability	40.38%

See the schedule of changes in the employer's net pension liability and related ratios in the required supplementary information for additional information related to the funded status of the Fund.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2015 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2015
Actuarial cost method	Entry age normal
Assumptions	
Inflation	2.5%
Salary increases	4.5%
Interest rate	7.0%
COLA	2.5%
Asset valuation	5-year smoothed market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the April 30, 2015 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was blended with the index rate of 3.62% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2015 to arrive at a discount rate of 7.00% used to determine the total pension liability.

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 7.00% as well as what the City's net pension liability would be if it

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Police Pension (Continued)**

Discount Rate Sensitivity (Continued)

were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 11,763,233	\$ 8,810,925	\$ 6,387,001

**Firefighters' Pension**

Fire sworn personnel are covered by the Firefighters' Pension Plan, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contributions levels are governed by Illinois Compiled Statutes (40 ILCS 5/4-1) and may be amended only by the Illinois legislature. The City accounts for the Firefighters' Pension Plan as a pension trust fund.

The plan is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active firefighter employees.

Plan Membership

At April 30, 2015, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	30
Inactive plan members entitled to but not yet receiving benefits	-
Current employees	<u>20</u>
Total	<u>50</u>

Benefits Provided

The following is a summary of benefits of the plan as provided for in ILCS:

The Firefighters' Pension Plan provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier I employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Benefits Provided (Continued)

or more years of creditable service are entitled to receive an annual retirement benefit equal to 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 annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75% of such 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 benefit. The monthly benefit of a firefighter 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% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with 10 or more years of credible service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Firefighters' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 firefighter shall be increased annually at age 60 on the January 1<sup>st</sup> after the firefighter retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% of ½ of the change in the Consumer Price Index for the proceeding calendar year.

Contributions

Employees are required by ILCS 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 accumulated interest. The City is required to contribute the remaining amounts necessary to finance the Fund as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Contributions (Continued)

funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2015, the City's contribution was 56.58% of covered payroll.

Investment Policy

Illinois Compiled Statutes ILCS) limit the Firefighter's Pension Fund's (the Fund) investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment grade corporate bonds, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds and corporate equity securities and real estate investment trusts. During the year, no changes were made to the investment policy

The Fund's investment policy in accordance with the ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	40%	2.42%
Domestic equities	48%	2.55%
International equities	12%	-1.40%
Cash and cash equivalents	0%	0.00%

ILCS limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Investment Policy (Continued)

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in April 2015 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2015 are listed in the table above.

Investment Valuations

All investments in the plan are stated at fair value and are recorded as of the trade date. Fair value is based on the quoted market prices as of April 30, 2015 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2015, there are no significant investments in any one obligation that represents 5.0% or more of the Fund's investments.

Investment Rate of Return

For the year ended April 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy requires all bank balances to be covered by federal depository insurance.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Investment Policy (Continued)

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2015:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	10 or more
Fixed income securities	\$ 4,491,085	\$ 550,945	\$ 2,391,894	\$ 998,872	\$ 549,374

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The fixed income securities are not rated Baa3 to Aaa by Moody's. However, certain fixed income securities are not rated.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund's agent separate from where the investment was purchased in the Fund's name. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Net Pension Liability

The components of the net pension liability of the Firefighters' Pension Plan as of April 30, 2015 were as follows:

Total pension liability	\$ 21,191,021
Plan fiduciary net position	12,165,347
City's net pension liability	9,025,674
Plan fiduciary net position as a percentage of the total pension liability	57.41%

See the schedule of changes in the employer's net pension liability and related ratios in the required supplementary information for additional information related to the funded status of the Fund.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2015 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2015
Actuarial cost method	Entry age normal
Assumptions	
Inflation	2.5%
Salary increases	4.5%
Interest rate	7.0%
COLA	2.5%
Asset valuation	5-year smoothed market

Mortality rates were based on the RP-2000 Mortality Table. The actuarial assumptions used in the April 30, 2015 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Firefighters' Pension (Continued)**

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected not to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was blended with the index rate of 3.62% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2015 to arrive at a discount rate of 7.00% used to determine the total pension liability.

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 7.00% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 11,552,761	\$ 9,025,674	\$ 6,955,606

**Significant Investments**

There are significant investments (other than U.S. Government guaranteed obligations) in the Police Pension Plan that represent 5.0% or more of plan net assets. Information for IMRF is not available.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Annual Pension Costs**

Employer contributions have been determined as follows:

	Illinois Municipal Retirement	Police Pension	Firefighters' Pension
Actuarial valuation date	December 31, 2014	April 30, 2015	April 30, 2015
Actuarial cost method	Entry-age Normal	Entry-age Normal	Entry-age Normal
Asset valuation method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Amortization method	Level Percentage of Payroll	Level Dollar	Level Dollar
Amortization period	30 Years, Open	26 Years, Closed	26 Years, Closed
Significant actuarial assumptions			
a) Rate of return on present and future assets	7.5% Compounded Annually	7.0% Compounded Annually	7.0% Compounded Annually
b) Projected salary increase - attributable to inflation	4.0% Compounded Annually	4.5% Compounded Annually	4.5% Compounded Annually
c) Additional projected salary increases - seniority/merit	.4% to 12.0%	Not Available	Not Available

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Annual Pension Costs**

Employer annual pension costs (APC), actual contributions and the net pension obligation (NPO) are as follows. The NPO is the cumulative difference between the APC and the contributions actually made.

	<b>Annual Pension Cost (APC)</b>	<b>Actual Contributions</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (Asset)</b>
<u>Illinois Municipal Retirement</u>				
12/31/14	\$ 312,490	\$ 312,490	100.00%	\$ -
12/31/13	314,563	314,563	100.00%	-
12/31/12	265,020	265,020	100.00%	-
<u>Police Pension Fund</u>				
04/30/15	\$ 618,015	\$ 645,238	104.40%	\$ (146,745)
04/30/14	572,663	601,394	105.02%	(119,522)
04/30/13	547,279	496,305	90.69%	(90,791)
<u>Firefighters' Pension Fund</u>				
04/30/15	\$ 565,479	\$ 610,272	107.92%	\$ 43,183
04/30/14	518,794	499,578	96.30%	68,757
04/30/13	470,153	414,393	88.14%	12,997

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 7. Employee Retirement Systems (Continued)

**Annual Pension Costs (Continued)**

The NPO at April 30, 2015 has been calculated as follows:

	Illinois Municipal Retirement	Police Pension	Firefighters' Pension
Annual required contribution	\$ 296,277	\$ 619,724	\$ 564,116
Interest on net pension obligation	-	(8,367)	6,378
Adjustment to annual required contribution	-	6,658	(5,015)
Annual pension cost	296,277	618,015	565,479
Contributions made	296,277	645,238	610,272
Change in net pension obligation	-	(27,223)	(44,793)
Net pension obligation (asset), beginning of year	-	(119,522)	87,976
Net pension obligation, end of year	\$ -	\$ (146,745)	\$ 43,183

The NPO is reported as a liability in the City's governmental activities column in the government-wide financial statements at April 30, 2015.

**Funded Status**

The funded status of the plans as of December 31, 2014 (for IMRF) and as of April 30, 2015 (for Police and Firefighters' Pension Funds), based on actuarial valuations performed as of the same date, is as follows. The actuarial assumptions used to

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
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Note 7. Employee Retirement Systems (Continued)

**Funded Status (Continued)**

determine the funded status of the plans are the same actuarial assumptions used to determine the employer APC of the plans as disclosed earlier in Note 7:

	Illinois Municipal Retirement
Actuarial accrued liability (AAL)	\$ 25,008,360
Actuarial value of plan assets	25,255,777
Unfunded actuarial accrued liability (UAAL)	(247,417)
Funded ratio (Actuarial value of the plan assets/AAL)	100.99%
Covered payroll (Active plan members)	2,637,839
UAAL as a percentage of covered payroll	-9.38%

See the schedules of funding progress in the required supplementary information immediately following the notes to the financial statements for additional information related to the funded status of the plans.

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.

**CITY OF STERLING, ILLINOIS**  
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Note 8. Other Postemployment Benefits

**Plan Description (Continued)**

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>

**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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 8. Other Postemployment Benefits (Continued)

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

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

The net OPEB obligation as of April 30, 2013 was calculated as follows:

Annual required contribution	\$ 368,604
Interest on net pension obligation	62,171
Adjustment to annual required contribution	<u>(51,809)</u>
Annual OPEB cost	\$ 378,966
Contributions made	<u>(168,158)</u>
Change in net OPEB obligation	\$ 210,808
Net OPEB obligation, beginning of year	<u>1,554,268</u>
Net OPEB obligation, end of year	<u><u>\$ 1,765,076</u></u>

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 8. Other Postemployment Benefits (Continued)

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

Funded Status and Funding Progress. The funded status of the plan as of April 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$	7,235,440
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)		7,235,440
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	7,808,958
UAAL as a percentage of covered payroll		92.66%

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

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

The unfunded actuarial accrued liability is amortized as a level 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, 2015 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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
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Note 8. Other Postemployment Benefits (Continued)

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

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the 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.

Note 9. Interfund Balances

**Operating Transfers**

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 26,500	\$ -
Capital Fund	-	325,000
Municipal Coliseum Fund	-	300,000
	<u>26,500</u>	<u>625,000</u>
Capital Fund:		
General Fund	<u>325,000</u>	<u>-</u>
Sewer Fund:		
General Fund	<u>-</u>	<u>26,500</u>
Municipal Coliseum Fund:		
General Fund	<u>300,000</u>	<u>-</u>
Total operating transfers	<u>\$ 651,500</u>	<u>\$ 651,500</u>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 9. Interfund Balances

**Operating Transfers (Continued)**

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purposes of interfund operating transfers existing at April 30, 2015 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 transferred \$300,000 to the Municipal Coliseum Fund to assist with expenses related to the remodel of the Coliseum.

The General Fund transferred \$325,000 to the Capital Fund to fund capital purchases for the fiscal year.

**Due From/Due To Other Funds**

	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>
General Fund:		
CBD Tax Increment Allocation Fund	\$ 450,000	\$ -
Rock River Tax Increment Allocation Fund	1,495,000	
Nonmajor Governmental	14,924	-
	1,959,924	-
Capital Fund:		
Rock River Tax Increment Allocation Fund	486,571	-
Municipal Coliseum Fund:		
CBD Tax Increment Allocation Fund	-	718,020
Lincolnway-Lynn Tax Increment Allocation Fund:		
CBD Tax Increment Allocation Fund	-	90,304
CDB Tax Increment Allocation Fund:		
General Fund	-	450,000
Lincolnway-Lynn Tax Increment Allocation Fund	90,304	
Rock River Tax Increment Allocation Fund	62,365	-
Nonmajor Governmental	718,020	402,500
	870,689	852,500

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 9. Interfund Balances (Continued)

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

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Rock River Tax Increment Allocation Fund:		
General Fund	-	1,495,000
Capital Fund	-	486,571
CBD Tax Increment Allocation Fund	-	62,365
Sewer Fund	-	330,000
Nonmajor Governmental	-	114,455
	<u>-</u>	<u>2,488,391</u>
Sewer Fund:		
Rock River Tax Increment Allocation Fund	<u>330,000</u>	<u>-</u>
Nonmajor Governmental:		
General Fund	-	14,924
Rock River Tax Increment Allocation Fund	114,455	-
CBD Tax Increment Allocation Fund	402,500	-
Nonmajor Governmental	<u>481,920</u>	<u>481,920</u>
	<u>998,875</u>	<u>496,844</u>
Total due from/due to other funds	<u>\$ 4,646,059</u>	<u>\$ 4,646,059</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, 2015, 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 \$14,924 for money loaned to cover expenses for library renovations.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
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Note 10. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2015:

	<u>Expenditures</u>	<u>Budget</u>
Capital Fund	\$ 1,336,737	\$ 1,313,811
NWSW Redevelopment Fund	12,936	12,928
Motor Fuel Tax Fund	552,748	545,152
Industrial Development Fund	183,171	111,386
IMRF Fund	313,441	311,805
Mud to Parks Grant Fund	182,112	-

The following funds had deficit fund balances or deficit retained earnings at April 30, 2015:

	<u>Deficit</u>
Municipal Coliseum Fund	\$ 715,760
Rock River Tax Increment Allocation Fund	1,539,526
Lincolnway-Lynn Tax Increment Allocation Fund	90,304
IGIG Grant Fund	33,298
NWSW Redevelopment Fund	173,745

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, 2015.

**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, 2015**

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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**  
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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 which donors have contributed for specific purposes or assets that have been designated by the board 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 earned. 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 and a note payable 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.

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

**Net Position (Continued)**

- *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 designated internally or donated by various individuals, estates, grants, etc. These funds are restricted internally or by the donors for specific purposes.
- *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	34%
Medicaid	7
Blue Cross	11
Other third-party payors	33
Patients	<u>15</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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

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

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.

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 \$2,276,000 of the claimed excess in net patient service revenue for the year ended April 30, 2015. 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.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Net Patient Service Revenue (Continued)**

**Medicaid**

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

**Blue Cross**

For inpatient 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, 2014.

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 \$-0- for the year ended April 30, 2015, 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 36% and 6%, respectively, of the Medical Center's net patient service revenue for the year ended April 30, 2015. 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 \$4,250,278 were received and were included in net patient service revenue for the year ended April 30, 2015.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Net Patient Service Revenue (Continued)**

**Other (Continued)**

The Department of Healthcare and Family Services is to make hospital access improvement payments for the period through June 30, 2018. Cash payments of \$2,590,948 were received and were included in net patient service revenue for the year ended April 30, 2015.

**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 \$2,500,000 for the year ended April 30, 2015. 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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Income Taxes (Continued)**

assets will not be realized. As of December 31, 2014, CGH Health Centers became inactive and all activities previously reported under CGH Health Centers became part of the Medical Center.

**Capital Assets**

Capital asset acquisitions are recorded 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 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, 2015, the net equity in unconsolidated investees is \$5,264,030.

**Deposits and Investments**

The carrying amount of the Medical Center's cash and deposits was \$41,314,872 and the bank balances totaled \$41,932,396. Cash on hand was \$5,620.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Deposits and Investments (Continued)**

As of April 30, 2015, 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	\$ 16,811,507	\$ 11,261,560	\$ 5,299,947	\$ 250,000	\$ -
Mutual Funds	5,013,295	5,013,295	-	-	-
FNMA	871,609	502,860	350,136	-	18,613
FHLB	3,156,274	-	3,156,274	-	-
GNMA	584,596	-	-	-	584,596
FHLMC	1,203,211	-	1,167,254	35,957	-
Municipal Bonds	16,105,876	6,846,092	8,231,692	902,403	125,689
	<u>\$ 43,746,368</u>	<u>\$ 23,623,807</u>	<u>\$ 18,205,303</u>	<u>\$ 1,188,360</u>	<u>\$ 728,898</u>

**Interest Rate Risk**

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

**Credit Risk**

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

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Revenue Bonds Payable**

At April 30, 2015, 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, 2015, are summarized as follows:

	<b>Balance at May 1, 2014</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at April 30, 2015</b>
2012 City of Sterling Hospital General Obligation Refunding Bonds	\$ 25,995,000	\$ -	\$ 2,570,000	\$ 23,425,000
Unamortized bond discount	1,538,259	-	179,215	1,359,044
<b>Total revenue bonds payable</b>	<b>\$ 27,533,259</b>	<b>\$ -</b>	<b>\$ 2,749,215</b>	<b>\$ 24,784,044</b>

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

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 2,630,000	\$ 801,325	\$ 3,431,325
2017	2,695,000	735,575	3,430,575
2018	2,750,000	668,200	3,418,200
2019	2,830,000	585,700	3,415,700
2020	2,930,000	500,800	3,430,800
2021-2022	9,590,000	778,200	10,368,200
	<b>\$ 23,425,000</b>	<b>\$ 4,069,800</b>	<b>\$ 27,494,800</b>

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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

**Capital Assets**

Capital asset activity for the year ended April 30, 2015 was as follows:

	<b>Balance at May 1, 2014</b>	<b>Additions</b>	<b>Transfers/ Disposals</b>	<b>Balance at April 30, 2015</b>
<b>Medical Center</b>				
Land	\$ 2,649,399	\$ -	\$ -	\$ 2,649,399
Land Improvements	3,760,154	208,055	-	3,968,209
Buildings and building improvements	81,728,394	7,786,043	2,222,260	87,292,177
Rented buildings	822,180	-	-	822,180
Building service equipment	13,736,150	-	-	13,736,150
Moveable equipment	69,703,380	11,549,673	(1,750,186)	83,003,239
Construction in progress	6,776,789	13,699,868	19,543,771	932,886
Total cost	<u>\$ 179,176,446</u>	<u>\$ 33,243,639</u>	<u>\$ 20,015,845</u>	<u>\$ 192,404,240</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,845,091	\$ 220,217	\$ -	\$ 2,065,308
Buildings	41,086,137	3,388,780	-	44,474,917
Rented buildings	813,577	1,936	591,924	223,589
Building service equipment	11,256,733	285,477	-	11,542,210
Moveable equipment	47,856,519	7,444,316	(159,896)	55,460,731
Total accumulated depreciation	<u>\$ 102,858,057</u>	<u>\$ 11,340,726</u>	<u>\$ 432,028</u>	<u>\$ 113,766,755</u>
<b>Total Medical Center capital assets, net</b>	<u><u>\$ 76,318,389</u></u>	<u><u>\$ 21,902,913</u></u>	<u><u>\$ 19,583,817</u></u>	<u><u>\$ 78,637,485</u></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, 2015 to be approximately \$1,774,000, 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, 2015**

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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 \$1,110,806. 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, 2015 by opinion unit are as follows:

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

Note 12. Fund Balances (Continued)

	<u>General Fund</u>	<u>Capital 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>	<u>Total Gov't Funds</u>
<b>Fund Balances:</b>								
Nonspendable:								
Inventories	\$ 53,106	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,106
Prepaid Items	-	-	-	-	-	-	-	-
Loans	464,924	-	-	-	-	-	432,616	897,540
Total nonspendable	<u>\$ 518,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,616</u>	<u>\$ 950,646</u>
Restricted:								
Public Safety	\$ 119,026	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,573	\$ 210,599
Community Dev	-	-	44	138,189	-	-	652,866	791,099
Culture & Rec	-	-	-	-	-	-	1,072,180	1,072,180
Cap Imp & Equip	-	-	-	-	-	-	307,292	307,292
IMRF/Soc Sec	-	-	-	-	-	-	564,833	564,833
Total Restricted	<u>\$ 119,026</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 138,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,688,744</u>	<u>\$ 2,946,003</u>
Committed:								
Cap Imp & Equip	\$ -	\$ 2,061,791	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,061,791
Unassigned	\$ 4,688,968	\$ -	\$ -	\$ -	\$ (90,304)	\$(1,539,526)	\$ (891,763)	\$ 2,167,375
Total Fund Balances	<u>\$ 5,326,024</u>	<u>\$ 2,061,791</u>	<u>\$ 44</u>	<u>\$ 138,189</u>	<u>\$ (90,304)</u>	<u>\$(1,539,526)</u>	<u>\$ 2,229,597</u>	<u>\$ 8,125,815</u>

Note 13. Prior Period Adjustments

During the year ended April 30, 2014, the City incorrectly reported bond issue costs less accumulated amortization as an asset in the government-wide financial statements. This caused assets to be overstated by \$271,181.

**CITY OF STERLING, ILLINOIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**April 30, 2015**

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Note 13. Prior Period Adjustments (Continued)

This adjustment had the following effect on beginning net position.

	<b><u>Governmental Activities</u></b>
Beginning net position, as previously stated	\$ 24,073,551
Correction of error	<u>(271,181)</u>
Beginning net position, after adjustment	<u><u>\$ 23,802,370</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF FUNDING PROGRESS**  
**April 30, 2015**

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}
<b>IMRF</b>						
12/31/14	\$ 9,832,225	\$ 10,862,861	\$ 1,030,636	90.51%	\$ 2,614,977	39.41%
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%

On a market value basis, the actuarial value of assets as of December 31, 2014 is \$12,150,102. On a market basis, the funded ratio would be 111.85%.

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.

**Other Postemployment Benefits**

4/30/13	\$	-	\$ 7,235,440	\$ 7,235,440	0.00%	\$ 7,808,958	92.66%
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**CITY OF STERLING, ILLINOIS**  
**ILLINOIS MUNICIPAL RETIREMENT FUND**  
**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS**  
**April 30, 2015**

	<u>2015</u>
<b>Total pension liability</b>	
Service cost	\$ 295,014
Interest	1,683,924
Changes of benefit terms	-
Differences between expected and actual experience	835,416
Changes of assumptions	834,269
Benefit payments, including refunds of member contributions	<u>(1,890,156)</u>
<b>Net change in total pension liability</b>	<u>1,758,467</u>
<b>Total pension liability - beginning</b>	<u>23,249,893</u>
<b>Total pension liability - ending</b>	<u><u>\$ 25,008,360</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 301,519
Contributions - member	229,481
Net investment income	1,451,081
Benefit payments, including refunds of member contributions	(1,890,156)
Other (net transfer)	<u>696,058</u>
<b>Net change in plan fiduciary net position</b>	<u>787,983</u>
<b>Plan net position - beginning</b>	<u>24,467,794</u>
<b>Plan net position - ending</b>	<u><u>\$ 25,255,777</u></u>
<b>Employer's net pension liability</b>	<u><u>\$ (247,417)</u></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	100.99%
<b>Covered employee payroll</b>	\$ 2,637,839
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	-9.38%

Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) Notes to this schedule would include explanations of changes in benefits, changes in assumptions, and other relevant matters.

**CITY OF STERLING, ILLINOIS**  
**POLICE PENSION FUND**  
**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS**  
**April 30, 2015**

	<u><b>2015</b></u>
<b>Total pension liability</b>	
Service cost	\$ 381,325
Interest	1,340,752
Changes of benefit terms	-
Differences between expected and actual experience	(45,677)
Changes of assumptions	1,506,037
Benefit payments, including refunds of member contributions	<u>(949,786)</u>
<b>Net change in total pension liability</b>	<u>2,232,651</u>
<b>Total pension liability - beginning</b>	<u>19,588,919</u>
<b>Total pension liability - ending</b>	<u><u>\$ 21,821,570</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 166,568
Contributions - member	645,238
Net investment income	625,895
Benefit payments, including refunds of member contributions	(949,786)
Other (net transfer)	<u>(25,337)</u>
<b>Net change in plan fiduciary net position</b>	<u>462,578</u>
<b>Plan net position - beginning</b>	<u>12,548,066</u>
<b>Plan net position - ending</b>	<u><u>\$ 13,010,644</u></u>
<b>Employer's net pension liability</b>	<u><u>\$ 8,810,926</u></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	59.62%
<b>Covered employee payroll</b>	\$ 1,625,458
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	542.06%

Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) Notes to this schedule would include explanations of changes in benefits, changes in assumptions, and other relevant matters.

**CITY OF STERLING, ILLINOIS  
FIREFIGHTERS' PENSION FUND  
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS  
April 30, 2015**

	<b><u>2015</u></b>
<b>Total pension liability</b>	
Service cost	\$ 267,801
Interest	1,274,276
Changes of benefit terms	-
Differences between expected and actual experience	451,161
Changes of assumptions	1,687,800
Benefit payments, including refunds of member contributions	<u>(1,281,161)</u>
<b>Net change in total pension liability</b>	<b>2,399,877</b>
<b>Total pension liability - beginning</b>	<b><u>18,791,144</u></b>
<b>Total pension liability - ending</b>	<b><u><u>\$ 21,191,021</u></u></b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 101,431
Contributions - member	610,272
Net investment income	831,636
Benefit payments, including refunds of member contributions	(1,281,161)
Other (net transfer)	<u>(17,181)</u>
<b>Net change in plan fiduciary net position</b>	<b>244,997</b>
<b>Plan net position - beginning</b>	<b><u>11,920,350</u></b>
<b>Plan net position - ending</b>	<b><u><u>\$ 12,165,347</u></u></b>
<b>Employer's net pension liability</b>	<b><u><u>\$ 9,025,674</u></u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>57.41%</b>
<b>Covered employee payroll</b>	<b>\$ 1,078,587</b>
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	<b>836.81%</b>

Notes to schedule:

- 1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
- 2) Notes to this schedule would include explanations of changes in benefits, changes in assumptions, and other relevant matters.

**CITY OF STERLING, ILLINOIS  
ILLINOIS MUNICIPAL RETIREMENT FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
April 30, 2015**

<b>Year Ended</b>	<b>Employer Contributions</b>	<b>Annual Required Contribution (ARC)</b>	<b>Percentage Contributed</b>
<b><u>IMRF</u></b>			
12/31/14	\$ 301,519	\$ 296,277	101.77%
12/31/13	314,563	314,563	100.00%
12/31/12	265,020	265,020	100.00%

**CITY OF STERLING, ILLINOIS  
POLICE PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
April 30, 2015**

	<u>2015</u>
Actuarially determined contribution	\$ 978,630
Contribution in relation to the actuarially determined contribution	<u>645,238</u>
Contribution deficiency (excess)	<u>\$ 333,392</u>
Covered-employee payroll	\$ 1,625,458
Contributions as a percentage of covered-employee payroll	39.70%

The information directly above is formatted to comply with the requirements of GASB Statement No. 67.

<u>Year Ended</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
<b><u>Police Pension Fund</u></b>			
4/30/15	\$ 645,238	\$ 619,724	104.12%
4/30/14	601,394	574,227	104.73%
4/30/13	496,305	549,947	90.25%

Notes to the required supplementary information:

This information directly above is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations as of January 1 of the prior fiscal year. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal; the amortization method was level dollar and the amortization period ends in fiscal year 2041; the asset valuation method was 5-year smoothed market; and the significant actuarial assumptions were an investment rate of return at 7.00% annually and projected salary increases assumption of 4.50% compounded annually.

**CITY OF STERLING, ILLINOIS  
FIREFIGHTERS' PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
April 30, 2015**

	<u>2015</u>
Actuarially determined contribution	\$ 974,055
Contribution in relation to the actuarially determined contribution	<u>610,272</u>
Contribution deficiency (excess)	<u>\$ 363,783</u>
Covered-employee payroll	\$ 1,078,587
Contributions as a percentage of covered-employee payroll	56.58%

The information directly above is formatted to comply with the requirements of GASB Statement No. 67.

<u>Year Ended</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
<b><u>Firemen Pension Fund</u></b>			
4/30/15	\$ 610,272	\$ 564,116	108.18%
4/30/14	499,578	517,613	96.52%
4/30/13	414,393	469,908	88.19%

Notes to the required supplementary information:

This information directly above is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations as of January 1 of the prior fiscal year. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal.; the amortization method was level dollar and the amortization period ends in fiscal year 2041; the asset valuation method was 5-year smoothed market; and the significant actuarial assumptions were an investment rate of return at 7.00% annually and projected salary increases assumption of 4.50% compounded annually.

**CITY OF STERLING, ILLINOIS**  
**SCHEDULE OF INVESTMENT RETURNS**  
**April 30, 2015**

	<b>Annual Money- Weighted Rate of Return, Net of Investment Expense</b>
	<hr/>
<b><u>Police Pension Fund</u></b>	
4/30/15	5.20%
<b><u>Firemen Pension Fund</u></b>	
4/30/15	7.10%

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Appropriation</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
<b>REVENUES</b>				
Property taxes:				
Corporate	\$ 385,576	\$ 394,700	\$ 394,700	\$ -
Fire protection	231,346	236,855	236,855	-
Police protection	231,346	236,855	236,855	-
Liability insurance	334,185	343,637	343,637	-
Workers' compensation	110,444	111,463	111,463	-
Road and bridge	128,354	113,222	113,222	-
Police pension	659,753	622,538	622,538	-
Fire pension	556,426	581,372	581,372	-
Total property taxes	<u>2,637,430</u>	<u>2,640,642</u>	<u>2,640,642</u>	<u>-</u>
Sales tax	<u>3,969,912</u>	<u>3,987,028</u>	<u>4,062,802</u>	<u>75,774</u>
Intergovernmental revenue:				
State income tax	1,529,299	1,450,196	1,548,462	98,266
State replacement tax	382,616	301,553	345,788	44,235
Township replacement tax	20,897	17,500	25,683	8,183
Federal forfeiture revenue	-	38,904	38,904	-
State forfeiture revenue	-	3,095	3,326	231
Blackhawk Area Task Force Grant	69,579	69,579	63,123	(6,456)
Non-infrastructure Project Grant	23,025	22,940	22,940	-
Small Equipment Grant	-	-	20,000	20,000
Tobacco Grant	2,200	2,310	3,250	940
Bulletproof Vest Grant	610	1,833	1,833	-
Fire protection revenue	277,158	294,609	278,633	(15,976)
Total intergovernmental revenue	<u>2,305,384</u>	<u>2,202,519</u>	<u>2,351,942</u>	<u>149,423</u>
Licenses and permits:				
Franchise licenses	595,304	556,924	546,700	(10,224)
Liquor licenses	62,190	57,950	79,637	21,687
Building permits	25,636	39,333	33,863	(5,470)
Other	52,470	50,817	58,398	7,581
Total licenses and permits	<u>735,600</u>	<u>705,024</u>	<u>718,598</u>	<u>13,574</u>
Fines and penalties	<u>163,820</u>	<u>193,659</u>	<u>203,872</u>	<u>10,213</u>
Charges for services	<u>69,761</u>	<u>65,794</u>	<u>65,697</u>	<u>(97)</u>
Investment income:				
Interest income	59,375	37,078	40,151	3,073
Net change in fair market value	-	-	(1,771)	(1,771)
Total investment income	<u>59,375</u>	<u>37,078</u>	<u>38,380</u>	<u>1,302</u>
Donations	<u>70,479</u>	<u>76,410</u>	<u>45,453</u>	<u>(30,957)</u>
Other	<u>417,544</u>	<u>367,573</u>	<u>338,041</u>	<u>(29,532)</u>
Total revenues	<u>\$10,429,305</u>	<u>\$10,275,727</u>	<u>10,465,427</u>	<u>\$ 189,700</u>

(continued)

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Appropriation</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
<b>EXPENDITURES</b>				
General government:				
Office of the Mayor and City Council	\$ 30,895	\$ 35,269	\$ 34,021	\$ 1,248
Office of City Clerk	126,130	117,066	114,845	2,221
Policy and Administration	302,539	293,058	291,017	2,041
Total general government	<u>459,564</u>	<u>445,393</u>	<u>439,883</u>	<u>5,510</u>
Public safety:				
Police Department				
Police Services Division	1,567,216	1,538,170	1,426,843	111,327
Administrative Services Division	345,254	342,650	343,135	(485)
Investigative Division	315,257	311,143	285,424	25,719
Support Services Division	624,829	605,412	597,222	8,190
Blackhawk Area Task Force Grant	69,579	69,579	63,122	6,457
Fire Department				
Fire Services Division	1,372,298	1,451,789	1,382,078	69,711
Administrative Services Division	156,173	156,460	157,730	(1,270)
Fire Prevention and Training Division	44,119	44,189	41,521	2,668
Total public safety	<u>4,494,725</u>	<u>4,519,392</u>	<u>4,297,075</u>	<u>222,317</u>
Public works and transportation:				
Administrative Division	111,831	106,156	112,605	(6,449)
Street Division	907,418	908,269	843,317	64,952
Traffic Division	58,710	93,474	94,321	(847)
City Shop	38,435	34,106	33,633	473
City Parks	73,325	117,362	111,121	6,241
Total public works and transportation	<u>1,189,719</u>	<u>1,259,367</u>	<u>1,194,997</u>	<u>64,370</u>
Community development:				
Office of Community Development	<u>308,015</u>	<u>296,166</u>	<u>288,002</u>	<u>8,164</u>
Other				
Contribution to police pension plan	659,753	622,538	622,538	-
Contribution to fire pension plan	556,426	581,372	581,372	-
Sterling Planning Commission	45,600	52,925	63,412	(10,487)
Police and Fire Commission	13,575	23,761	22,215	1,546
Non-departmental	2,054,603	2,110,633	1,995,303	115,330
Total other	<u>3,329,957</u>	<u>3,391,229</u>	<u>3,284,840</u>	<u>106,389</u>
Debt service:				
Principal	23,264	23,256	23,256	-
Interest	651	651	651	-
Total debt service	<u>23,915</u>	<u>23,907</u>	<u>23,907</u>	<u>-</u>
Capital outlay	<u>92,000</u>	<u>92,000</u>	<u>87,992</u>	<u>4,008</u>
Total expenditures	<u>\$ 9,897,895</u>	<u>\$ 10,027,454</u>	<u>9,616,696</u>	<u>\$ 410,758</u>
Excess of revenues over expenditures			<u>848,731</u>	

(continued)

**CITY OF STERLING, ILLINOIS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Appropriation</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of property	\$ 1,500	\$ 8,969	\$ 8,969	\$ -
Operating transfers in	26,500	26,500	26,500	-
Operating transfers out	<u>(625,000)</u>	<u>(625,000)</u>	<u>(625,000)</u>	<u>-</u>
	<u>\$ (597,000)</u>	<u>\$ (589,531)</u>	<u>(589,531)</u>	<u>\$ -</u>
 Excess of revenues and other financing sources over expenditures and other financing uses			 259,200	
 <b>FUND BALANCE, BEGINNING OF YEAR,</b>			 <u>5,066,824</u>	
 <b>FUND BALANCE, END OF YEAR</b>			 <u>\$ 5,326,024</u>	

**CITY OF STERLING, ILLINOIS**  
**CAPITAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<b>REVENUES</b>				
Taxes				
Sales	\$ 1,026,902	\$ 1,007,481	\$ 1,030,189	\$ 22,708
Charges for service	11,830	17,187	17,980	793
Interest	101,735	22,070	26,376	4,306
Net change in fair value of investments	-	-	1,785	1,785
Donations	131,000	10,000	10,000	-
	<u>1,271,467</u>	<u>1,056,738</u>	<u>1,086,330</u>	<u>29,592</u>
Total revenues	<u>\$ 1,271,467</u>	<u>\$ 1,056,738</u>	<u>1,086,330</u>	<u>\$ 29,592</u>
<b>EXPENDITURES</b>				
General government				
Bank expense	\$ 376	\$ 234	\$ 238	\$ (4)
Public works and transportation				
Streets	558,767	460,983	471,396	(10,413)
Community development				
Demolition of property	80,000	23,032	25,240	(2,208)
Capital outlay				
Public Works building addition	15,000	-	208	(208)
Streetscape Program	200,000	-	-	-
Woodburn/W 9th St - W 11th St reconstruction	198,136	163,462	167,154	(3,692)
ADA compliance project	-	-	35,537	(35,537)
Public Works sprinkler	-	10,000	-	10,000
Public Works skid loader	-	40,545	40,545	-
Public Works pickup truck and plow	36,000	-	-	-
5th Avenue/East Miller Road reconstruction	643,097	530,555	542,539	(11,984)
Sidewalks/curb and gutter	85,000	85,000	53,880	31,120
	<u>1,816,376</u>	<u>1,313,811</u>	<u>1,336,737</u>	<u>(22,926)</u>
Total expenditures	<u>\$ 1,816,376</u>	<u>\$ 1,313,811</u>	<u>1,336,737</u>	<u>\$ (22,926)</u>
Deficiency of revenues over expenditures			<u>(250,407)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ 325,000	\$ 325,000	325,000	\$ -
Advance for theater renovation	(80,000)	(237,486)	(237,486)	-
	<u>245,000</u>	<u>87,514</u>	<u>87,514</u>	<u>-</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>(162,893)</u>	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>2,224,684</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 2,061,791</u>	

**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, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
<b>REVENUES</b>				
Other	\$ 3,397,353	\$ 3,397,309	\$ 3,397,343	\$ 34
Total revenues	<u>\$ 3,397,353</u>	<u>\$ 3,397,309</u>	<u>3,397,343</u>	<u>\$ 34</u>
<b>EXPENDITURES</b>				
Other				
Bond expense	\$ 328	\$ 328	\$ 318	\$ 10
Debt service				
Principal	2,570,000	2,570,000	2,570,000	-
Interest	<u>827,025</u>	<u>827,025</u>	<u>827,025</u>	<u>-</u>
Total expenditures	<u>\$ 3,397,353</u>	<u>\$ 3,397,353</u>	<u>3,397,343</u>	<u>\$ 10</u>
Excess of revenues over expenditures			<u>-</u>	
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			-	
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>44</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 44</u>	

**CITY OF STERLING, ILLINOIS**  
**CBD TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
Property	\$ 308,977	\$ 313,402	\$ 313,402	\$ -
Sales	120,000	120,000	120,000	-
Interest	<u>5,351</u>	<u>313</u>	<u>348</u>	<u>35</u>
Total revenues	<u>\$ 434,328</u>	<u>\$ 433,715</u>	<u>433,750</u>	<u>\$ 35</u>
<b>EXPENDITURES</b>				
Community development				
Miscellaneous	\$ 21,759	\$ 8,732	8,725	\$ 7
Debt service				
Principal	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total expenditures	<u>\$ 46,759</u>	<u>\$ 33,732</u>	<u>33,725</u>	<u>\$ 7</u>
Excess of revenues over expenditures			<u>400,025</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Excess of revenues and other financing sources over expenditures and other financing uses			400,025	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(261,836)</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 138,189</u>	

**CITY OF STERLING, ILLINOIS**  
**LINCOLNWAY-LYNN TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 155,550	\$ 160,412	\$ 160,412	\$ -
Interest	-	28	28	-
Other	461,788	461,788	461,788	-
	<u>461,788</u>	<u>461,788</u>	<u>461,788</u>	<u>-</u>
Total revenues	<u>\$ 617,338</u>	<u>\$ 622,228</u>	<u>622,228</u>	<u>\$ -</u>
<b>EXPENDITURES</b>				
Community development				
Legal service	\$ 2,060	\$ 500	-	\$ 500
Reimbursement of developer TIF increment	157,600	159,411	159,411	-
Miscellaneous	1,557	1,520	1,519	1
Debt service				
Principal	200,000	200,000	200,000	-
Interest	261,788	261,788	261,788	-
	<u>261,788</u>	<u>261,788</u>	<u>261,788</u>	<u>-</u>
Total expenditures	<u>\$ 623,005</u>	<u>\$ 623,219</u>	<u>622,718</u>	<u>\$ 501</u>
Deficiency of revenues over expenditures			(490)	
<b>OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			(490)	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			(89,814)	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (90,304)</u>	

**CITY OF STERLING, ILLINOIS**  
**ROCK RIVER TAX INCREMENT ALLOCATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -**  
**BUDGET AND ACTUAL**  
**Year Ended April 30, 2015**

	<u>Budget</u>		<u>Actual</u>	<u>Over</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
				<u>Budget</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 508,259	\$ 524,339	\$ 524,339	\$ -
Interest	290	150	155	5
Other	-	6,500	10,574	4,074
	<u>-</u>	<u>6,500</u>	<u>10,574</u>	<u>4,074</u>
Total revenues	<u>\$ 508,549</u>	<u>\$ 530,989</u>	<u>535,068</u>	<u>\$ 4,079</u>
<b>EXPENDITURES</b>				
Community development				
Other professional service	\$ 35,000	\$ 988	-	\$ 988
Legal service	250,000	550,000	518,131	31,869
Bank expense	69,346	81,954	74,713	7,241
Miscellaneous	766	717	1,217	(500)
Debt service				
Principal	230,000	230,000	230,000	-
Interest	20,000	6,361	6,240	121
	<u>20,000</u>	<u>6,361</u>	<u>6,240</u>	<u>121</u>
Total expenditures	<u>\$ 605,112</u>	<u>\$ 870,020</u>	<u>830,301</u>	<u>\$ 39,719</u>
Deficiency of revenues over expenditures			<u>(295,233)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>(295,233)</u>	
<b>FUND DEFICIT, BEGINNING OF YEAR</b>			<u>(1,244,293)</u>	
<b>FUND DEFICIT, END OF YEAR</b>			<u>\$ (1,539,526)</u>	

**SUPPLEMENTARY INFORMATION**

**CITY OF STERLING, ILLINOIS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**April 30, 2015**

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**Note 1. Basis of Accounting**

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

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

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

	<u>Actual</u>	<u>Budget</u>
Capital Fund	\$ 1,336,737	\$ 1,313,811

**CITY OF STERLING, ILLINOIS  
NONMAJOR FUNDS  
COMBINING BALANCE SHEET  
April 30, 2015**

	Special Revenue							
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	
<b>ASSETS</b>								
Cash	\$ -	\$ 300,295	\$ 13,543	\$ -	\$ -	\$ 28,002	\$ 2,838	\$ -
Investments	272,116	487,567	-	522,444	-	419,843	-	6,843
Receivables (net, where applicable of allowances for uncollectibles)								
Taxes	-	403,408	56,363	-	78,066	223,111	207,029	10,304
Intergovernmental	35,747	17,509	1,983	-	3,016	-	833	704
Accounts	-	-	-	4,779	-	-	-	-
Notes	-	-	-	30,116	-	-	-	-
Interest	-	4,061	-	23,786	-	4,539	-	5
Due from other funds	-	170,126	132,444	111,037	-	-	132,068	84,022
<b>TOTAL ASSETS</b>	<b>\$ 307,863</b>	<b>\$ 1,382,966</b>	<b>\$ 204,333</b>	<b>\$ 692,162</b>	<b>\$ 81,082</b>	<b>\$ 675,495</b>	<b>\$ 342,768</b>	<b>\$ 101,878</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 571	\$ 3,078	\$ 1,975	\$ 1,203	\$ 756	\$ 23,290	\$ -	\$ 1
Accrued payroll	-	10,613	5,545	-	-	-	-	-
Deposits	-	-	-	7,977	-	-	-	-
Due to other funds	-	14,924	-	-	718,020	-	-	-
Deferred revenue	-	422,621	56,363	-	78,066	223,111	207,029	10,304
Total liabilities	<u>571</u>	<u>451,236</u>	<u>63,883</u>	<u>9,180</u>	<u>796,842</u>	<u>246,401</u>	<u>207,029</u>	<u>10,305</u>
<b>FUND BALANCE</b>								
Nonspendable	-	-	-	30,116	-	-	-	-
Restricted	307,292	931,730	140,450	652,866	-	429,094	135,739	91,573
Unassigned	-	-	-	-	(715,760)	-	-	-
Total fund balance	<u>307,292</u>	<u>931,730</u>	<u>140,450</u>	<u>682,982</u>	<u>(715,760)</u>	<u>429,094</u>	<u>135,739</u>	<u>91,573</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 307,863</b>	<b>\$ 1,382,966</b>	<b>\$ 204,333</b>	<b>\$ 692,162</b>	<b>\$ 81,082</b>	<b>\$ 675,495</b>	<b>\$ 342,768</b>	<b>\$ 101,878</b>

Special Revenue			Debt Service		Capital Project				Total
AG NFS Grant Fund	IGIG Grant Fund	Mud to Parks Grant Fund	NSP2 Grant Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	
\$ -	\$ -	\$ -	\$ 63,139	\$ 31,040	\$ -	\$ -	\$ -	\$ -	\$ 438,857
-	-	-	-	-	-	-	-	-	1,708,813
-	-	-	-	38,274	-	-	-	-	1,016,555
3,996	98,770	182,112	-	-	33,322	-	-	-	377,992
-	-	-	-	-	-	650	-	-	5,429
-	-	-	-	-	-	-	-	-	30,116
-	-	-	-	-	-	-	-	-	32,391
-	-	-	-	-	-	-	-	402,500	1,032,197
<u>\$ 3,996</u>	<u>\$ 98,770</u>	<u>\$ 182,112</u>	<u>\$ 63,139</u>	<u>\$ 69,314</u>	<u>\$ 33,322</u>	<u>\$ 650</u>	<u>\$ -</u>	<u>\$ 402,500</u>	<u>\$ 4,642,350</u>
\$ 750	\$ -	\$ 2,386	\$ 151	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,161
15	-	-	357	-	-	-	-	-	16,530
-	-	-	-	-	-	-	7,500	-	15,477
3,231	132,068	179,726	-	-	33,322	650	166,245	-	1,248,186
-	-	-	62,631	38,274	-	-	-	-	1,098,399
<u>3,996</u>	<u>132,068</u>	<u>182,112</u>	<u>63,139</u>	<u>38,274</u>	<u>33,322</u>	<u>650</u>	<u>173,745</u>	<u>-</u>	<u>2,412,753</u>
-	-	-	-	-	-	-	-	402,500	432,616
-	-	-	-	-	-	-	-	-	2,688,744
-	(33,298)	-	-	31,040	-	-	(173,745)	-	(891,763)
-	(33,298)	-	-	31,040	-	-	(173,745)	402,500	2,229,597
<u>\$ 3,996</u>	<u>\$ 98,770</u>	<u>\$ 182,112</u>	<u>\$ 63,139</u>	<u>\$ 69,314</u>	<u>\$ 33,322</u>	<u>\$ 650</u>	<u>\$ -</u>	<u>\$ 402,500</u>	<u>\$ 4,642,350</u>

**CITY OF STERLING, ILLINOIS**  
**NONMAJOR FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended April 30, 2015**

	Special Revenue							
	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	
<b>REVENUES</b>								
Taxes	\$ -	\$ 400,178	\$ 56,524	\$ -	\$ 79,004	\$ 205,664	\$ 202,499	\$ 10,292
Intergovernmental	513,617	111,283	9,863	-	14,998	5,050	4,144	3,501
Charges for services	-	17,307	2,650	103,329	20,812	-	-	-
Interest	70	15,342	59	1,622	-	15,181	69	246
Net change in fair value of investments	-	5,028	-	-	-	(333)	-	44
Donations	-	34,007	30,315	-	-	-	-	-
Other	-	26,052	60	1,152	-	62,550	44,153	-
Total revenues	<u>513,687</u>	<u>609,197</u>	<u>99,471</u>	<u>106,103</u>	<u>114,814</u>	<u>288,112</u>	<u>250,865</u>	<u>14,083</u>
<b>EXPENDITURES</b>								
Current								
General government	-	-	-	-	192,051	313,441	240,954	-
Public safety	-	-	-	-	-	-	-	8,526
Public works and transportation	338,880	-	-	-	-	-	-	-
Community development	-	-	-	183,171	-	-	-	-
Culture and recreation	-	575,024	94,500	-	-	-	-	-
Debt service								
Principal	196,656	-	-	-	90,000	-	-	-
Interest	17,212	968	-	-	156,674	-	-	-
Capital outlay	-	7,009	-	-	38,888	-	-	-
Total expenditures	<u>552,748</u>	<u>583,001</u>	<u>94,500</u>	<u>183,171</u>	<u>477,613</u>	<u>313,441</u>	<u>240,954</u>	<u>8,526</u>
Excess (deficiency) of revenues over expenditures	<u>(39,061)</u>	<u>26,196</u>	<u>4,971</u>	<u>(77,068)</u>	<u>(362,799)</u>	<u>(25,329)</u>	<u>9,911</u>	<u>5,557</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Sale of property	-	2,321	-	-	-	-	-	-
Operating transfer in	-	-	-	-	300,000	-	-	-
Total other financing sources	<u>-</u>	<u>2,321</u>	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(39,061)</u>	<u>28,517</u>	<u>4,971</u>	<u>(77,068)</u>	<u>(62,799)</u>	<u>(25,329)</u>	<u>9,911</u>	<u>5,557</u>
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	<u>346,353</u>	<u>903,213</u>	<u>135,479</u>	<u>760,050</u>	<u>(652,961)</u>	<u>454,423</u>	<u>125,828</u>	<u>86,016</u>
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<u>\$ 307,292</u>	<u>\$ 931,730</u>	<u>\$ 140,450</u>	<u>\$ 682,982</u>	<u>\$ (715,760)</u>	<u>\$ 429,094</u>	<u>\$ 135,739</u>	<u>\$ 91,573</u>

Special Revenue				Debt Service	Capital Project					
AG NFS Grant Fund	IGIG Grant Fund	Mud to Parks Grant Fund	NSP2 Grant Fund	Special Service Area Fund	Lynn Boulevard Project Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	Total	
\$ -	\$ -	\$ -	\$ -	\$ 38,084	\$ 191,661	\$ -	\$ -	\$ -	\$ 1,183,906	
3,996	282,747	182,112	215,400	-	-	-	-	-	1,346,711	
-	-	-	-	-	-	-	96,450	-	240,548	
-	-	-	2	12	32	-	-	-	32,635	
-	-	-	-	-	-	-	-	-	4,739	
-	-	-	-	-	-	-	50,000	-	114,322	
-	-	-	-	2,025	-	-	-	-	135,992	
<u>3,996</u>	<u>282,747</u>	<u>182,112</u>	<u>215,402</u>	<u>40,121</u>	<u>191,693</u>	<u>-</u>	<u>146,450</u>	<u>-</u>	<u>3,058,853</u>	
-	-	-	-	-	-	-	-	-	746,446	
-	-	-	-	-	-	-	-	-	8,526	
-	-	-	-	-	428	-	-	-	339,308	
3,996	316,045	182,112	19,621	-	-	-	12,936	-	717,881	
-	-	-	-	-	-	-	-	-	669,524	
-	-	-	-	-	210,000	-	-	-	496,656	
-	-	-	-	7,170	6,300	-	-	-	188,324	
-	-	-	201,704	-	-	-	-	-	247,601	
<u>3,996</u>	<u>316,045</u>	<u>182,112</u>	<u>221,325</u>	<u>7,170</u>	<u>216,728</u>	<u>-</u>	<u>12,936</u>	<u>-</u>	<u>3,414,266</u>	
-	(33,298)	-	(5,923)	32,951	(25,035)	-	133,514	-	(355,413)	
-	-	-	5,923	-	-	-	-	-	8,244	
-	-	-	-	-	-	-	-	-	300,000	
-	-	-	5,923	-	-	-	-	-	308,244	
-	(33,298)	-	-	32,951	(25,035)	-	133,514	-	(47,169)	
-	-	-	-	(1,911)	25,035	-	(307,259)	402,500	2,276,766	
<u>\$ -</u>	<u>\$ (33,298)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (173,745)</u>	<u>\$ 402,500</u>	<u>\$ 2,229,597</u>	

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**PENSION TRUST FUNDS**  
**April 30, 2015**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash	\$ 78,996	\$ 80,187	\$ 159,183
Accrued interest receivable	22,203	23,296	45,499
Investments, at fair value	<u>12,909,445</u>	<u>12,061,864</u>	<u>24,971,309</u>
<b>TOTAL ASSETS</b>	<u>13,010,644</u>	<u>12,165,347</u>	<u>25,175,991</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>	<u>\$ 13,010,644</u>	<u>\$ 12,165,347</u>	<u>\$ 25,175,991</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PENSION TRUST FUNDS**  
**Year Ended April 30, 2015**

	<b>Pension Trust Funds</b>		
	<b>Policemen's Pension Fund</b>	<b>Firemen's Pension Fund</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 645,238	\$ 610,272	\$ 1,255,510
Plan members	166,568	101,431	267,999
Total contributions	<u>811,806</u>	<u>711,703</u>	<u>1,523,509</u>
Investment income			
Interest earned	360,352	399,137	759,489
Net change in fair value	351,204	478,916	830,120
Total investment income	<u>711,556</u>	<u>878,053</u>	<u>1,589,609</u>
Less: investment expense	<u>(85,681)</u>	<u>(46,417)</u>	<u>(132,098)</u>
Net investment income	<u>625,875</u>	<u>831,636</u>	<u>1,457,511</u>
Other revenue	<u>20</u>	<u>-</u>	<u>20</u>
Total additions	<u>1,437,701</u>	<u>1,543,339</u>	<u>2,981,040</u>
<b>DEDUCTIONS</b>			
Administrative	25,337	17,181	42,518
Benefits	949,786	1,281,161	2,230,947
Total deductions	<u>975,123</u>	<u>1,298,342</u>	<u>2,273,465</u>
<b>CHANGE IN NET POSITION</b>	<u>462,578</u>	<u>244,997</u>	<u>707,575</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>12,548,066</u>	<u>11,920,350</u>	<u>24,468,416</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 13,010,644</u>	<u>\$ 12,165,347</u>	<u>\$ 25,175,991</u>

**CITY OF STERLING, ILLINOIS**  
**COMBINING STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
**April 30, 2015**

	<b>CGH Medical Center</b>	<b>Foreign Fire Insurance Board</b>	<b>Total Component Units</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 28,597,290	\$ 24,730	\$ 28,622,020
Patient accounts receivable, less allowance for uncollectible accounts of \$10,641,512	25,701,568	-	25,701,568
Other receivables	1,106,636	-	1,106,636
Estimated third-party payor settlements	385,963	-	385,963
Due from unconsolidated investees	148,934	-	148,934
Inventories	3,109,531	-	3,109,531
Accrued interest receivable	179,713	-	179,713
Prepaid expenses	2,654,437	-	2,654,437
Total current assets	<u>61,884,072</u>	<u>24,730</u>	<u>61,908,802</u>
Other assets			
Investments	43,746,368	-	43,746,368
Assets limited as to use	5,227,918	-	5,227,918
Capital assets, net	78,637,485	-	78,637,485
Other assets	1,423,119	-	1,423,119
Net equity in unconsolidated investees	5,264,030	-	5,264,030
Total other assets	<u>134,298,920</u>	<u>-</u>	<u>134,298,920</u>
<b>TOTAL ASSETS</b>	<u>196,182,992</u>	<u>24,730</u>	<u>196,207,722</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	4,342,167	-	4,342,167
Accrued salaries, wages, and benefits	12,038,251	-	12,038,251
Accrued malpractice	1,110,806	-	1,110,806
Current maturities of long-term debt	254,901	-	254,901
Current maturities of bonds payable	2,630,000	-	2,630,000
Estimated third-party payor settlements	8,462,646	-	8,462,646
Other current liabilities	4,710,514	-	4,710,514
Total current liabilities	<u>33,549,285</u>	<u>-</u>	<u>33,549,285</u>
Long-term liabilities			
Notes payable, less current maturities	1,542,708	-	1,542,708
Bonds payable, less current maturities and net of unamortized premium of \$1,359,044	22,154,044	-	22,154,044
Total noncurrent liabilities	<u>23,696,752</u>	<u>-</u>	<u>23,696,752</u>
Total liabilities	<u>57,246,037</u>	<u>-</u>	<u>57,246,037</u>
<b>NET POSITION</b>			
Net investment in capital assets	52,055,832	-	52,055,832
Restricted for:			
Health development	5,227,918	-	5,227,918
Unrestricted	81,653,205	24,730	81,677,935
Total net position	<u>\$ 138,936,955</u>	<u>\$ 24,730</u>	<u>\$ 138,961,685</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH STATE OF ILLINOIS PUBLIC ACT 85-1142

Illinois Department of Revenue  
Springfield, Illinois

We have audited the basic financial statements of the City of Sterling, Illinois for the year ended April 30, 2015, and have issued our report thereon dated October 14, 2015. 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 CBD Tax Increment Allocation Fund, Lincolnway-Lynn Tax Increment Allocation Fund and Rock River Tax Increment Allocation Fund 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.

*Wipfli LLP*

Rockford, Illinois  
October 14, 2015