

CITY OF STERLING, ILLINOIS

ANNUAL FINANCIAL REPORT

April 30, 2016

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, 2016, 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB 68*, during the year ended April 30, 2016. Statements No. 68 and 71 changed how net pension liability is reported on the statement of net position and the footnotes related to the retirement systems the City participates in. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America 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 96 through 114 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining nonmajor funds, pension trust funds and component unit financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, 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.

Wipfli LLP

Rockford, Illinois
September 29, 2016

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 of America 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2016. Our report on the financial statements includes an emphasis-of-matter paragraph describing how the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB 68*, during the year ended April 30, 2016. Our report also includes a reference to other auditors who audited the financial statements of CGH Medical Center, as described in our report on the City's financial statements and the fact that those financial statements were not audited in accordance with *Government Auditing Standards*.

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

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
September 29, 2016

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, 2016. 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 \$17,559,460 (net position).
- The City's total net position decreased by \$4,574,553 from the prior year. The net position of the City's business-type activities increased by \$131,863, or 1.1%, and the net position of the City's governmental activities decreased by \$4,706,416, or 47.8%.
- In the City's governmental activities, revenues increased \$83,287, or .5%, and expenses increased \$5,449,550, or 32.8 %.
- In the City's business-type activities, revenues decreased \$3,043, or .1%, and expenses increased \$282,483, or 10.3%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,405,604, or 55.4% 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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-four 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, CBD East 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 \$17,559,460 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 (113.9%) 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 2015 - FY 2016
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	
Current and other assets	\$ 43.4	\$ 44.5	\$ 4.8	\$ 4.7	\$ 48.2	\$ 49.2	-2.0%
Capital assets	24.2	24.4	8.4	8.4	32.6	32.8	-0.6%
Total assets	<u>\$ 67.6</u>	<u>\$ 68.9</u>	<u>\$ 13.2</u>	<u>\$ 13.1</u>	<u>\$ 80.8</u>	<u>\$ 82.0</u>	-1.5%
Deferred outflows	<u>\$ 9.0</u>	<u>\$ -</u>	<u>\$ 0.4</u>	<u>\$ -</u>	<u>\$ 9.4</u>	<u>\$ -</u>	#DIV/0!
Long-term liabilities outstanding	\$ 32.9	\$ 36.6	\$ 0.8	\$ 0.9	\$ 33.7	\$ 37.5	-10.1%
Other liabilities	31.8	2.7	0.4	0.2	32.2	2.9	1010.3%
Total liabilities	<u>\$ 64.7</u>	<u>\$ 39.3</u>	<u>\$ 1.2</u>	<u>\$ 1.1</u>	<u>\$ 65.9</u>	<u>\$ 40.4</u>	63.1%
Deferred inflows	<u>\$ 6.7</u>	<u>\$ 5.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6.7</u>	<u>\$ 5.1</u>	31.4%
Net position:							
Invested in capital assets, net of debt	\$ 12.3	\$ 11.8	\$ 7.7	\$ 7.5	\$ 20.0	\$ 19.3	3.6%
Restricted	5.7	2.8	-	-	5.7	2.8	103.6%
Unrestricted	(12.8)	9.9	4.7	4.5	(8.1)	14.4	-156.3%
Total net position	<u>\$ 5.2</u>	<u>\$ 24.5</u>	<u>\$ 12.4</u>	<u>\$ 12.0</u>	<u>\$ 17.6</u>	<u>\$ 36.5</u>	-51.8%

Adjustments have not been made to the table above to restate prior year for the effect of GASB No. 68 & 71.

An additional portion of the City's net position (32.5%) represents resources that are subject to external restrictions on how they may be used. There was an increase of \$176,437 in restricted net position reported in connection with the City's governmental funds. A majority of this increase is due to an increase in local option sales taxes in the Capital Fund.

The remaining balance of *unrestricted net position* ((\$12,829,934), or -249.2% of total net position) may be used to meet the City's ongoing obligations to citizens and creditors. There was a decrease of \$20,345,677 in unrestricted net position reported in connection with the City's governmental funds. This decrease in unrestricted net position is mainly due to the implementation of GASB Statement No. 68 to record the City's net pension liability.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position except for unrestricted net position for governmental activities.

The City's net position decreased by \$4,574,553 during the current fiscal year. This decrease is mainly due to the implementation of GASB Statement No. 68 in the fiscal year ended April 30, 2016, which requires that a net pension liability be shown on the Statement of Net Position.

Condensed Statement of Activities
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2015 - FY 2016
Revenues:							
Program revenues:							
Charges for services	\$ 2.0	\$ 1.9	\$ 3.1	\$ 3.0	\$ 5.1	\$ 4.9	4.1%
Operating grants and contributions	0.6	0.2	-	-	0.6	0.2	200.0%
Capital grants and contributions	0.6	0.8	-	-	0.6	0.8	-25.0%
General revenues:							
Property taxes	4.8	4.6	-	-	4.8	4.6	4.3%
Other taxes	7.4	8.0	-	-	7.4	8.0	-7.5%
Other	1.9	1.8	0.1	0.2	2.0	2.0	0.0%
Total revenues	<u>17.3</u>	<u>17.3</u>	<u>3.2</u>	<u>3.2</u>	<u>20.5</u>	<u>20.5</u>	0.0%
Program expenses:							
General government	2.9	3.2	-	-	2.9	3.2	-9.4%
Public safety	9.4	4.5	-	-	9.4	4.5	108.9%
Public works and transportation	2.4	2.9	-	-	2.4	2.9	-17.2%
Community development	3.1	1.8	-	-	3.1	1.8	72.2%
Culture and recreation	0.6	0.6	-	-	0.6	0.6	0.0%
Other	2.4	2.3	-	-	2.4	2.3	4.3%
Interest on long-term debt	1.2	1.3	-	-	1.2	1.3	-7.7%
Sewer	-	-	2.0	1.7	2.0	1.7	17.6%
Solid waste	-	-	1.1	1.0	1.1	1.0	10.0%
Total expenses	<u>22.0</u>	<u>16.6</u>	<u>3.1</u>	<u>2.7</u>	<u>25.1</u>	<u>19.3</u>	30.1%
Change in net position	(4.7)	0.7	0.1	0.5	(4.6)	1.2	100.0%
Net position, beginning of year, as restated	<u>9.9</u>	<u>23.8</u>	<u>12.3</u>	<u>11.5</u>	<u>22.2</u>	<u>35.3</u>	-37.1%
Net position, end of year	<u>\$ 5.2</u>	<u>\$ 24.5</u>	<u>\$ 12.4</u>	<u>\$ 12.0</u>	<u>\$ 17.6</u>	<u>\$ 36.5</u>	-51.8%

Adjustments have not been made to the table above to restate prior year for the effect of GASB No. 68 & 71.

Governmental activities decreased the City's net position by \$4,706,416. Key elements of this decrease are as follows:

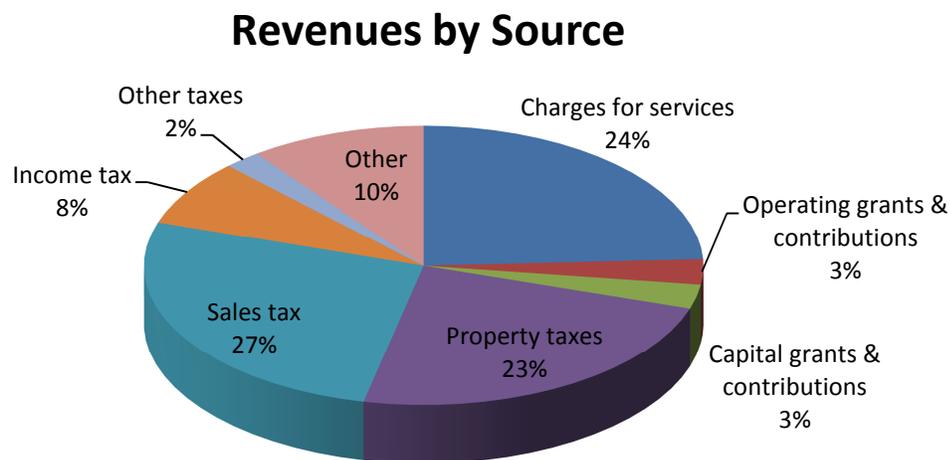
- Governmental revenues only increased by approximately .5%. This increase was mainly attributable to the increase in property taxes.

- Governmental expenses increased by approximately 32.8%. This increase is comprised of the following:
 - Net increase in expenditures for the current year net pension liability/deferred outflows related to pensions of \$4,802,012, or 100.0%. This increase was related to the implementation of GASB Statement No. 68, which was new in the fiscal year ended April 30, 2016.
 - Increase in expenditures for community development of \$757,450, or 145.2%, related to increased spending for the AG NFS Grant, IGIG Grant, Mud to Parks Grant, and the NSP2 Grant.
 - Increase in contributions to the police and fire pension plans of \$137,681, or 11.4%.

Business-type activities increased the City’s net position by \$131,863. Key elements of this increase are as follows:

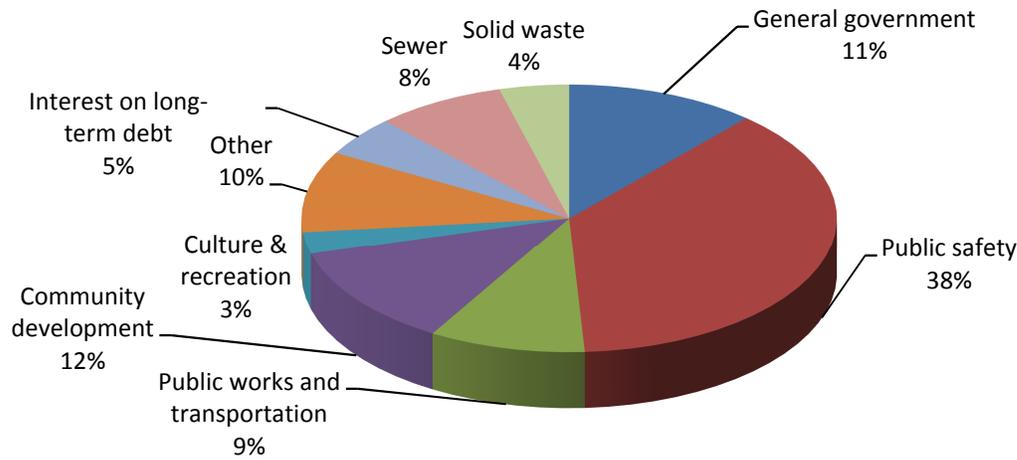
- Business-type revenues decreased by approximately .1%. This decrease is mainly related to 1) a 19.7% decrease in personal property replacement tax, and 2) a 25.3% decrease in investment income.
- Business-type expenses increased by approximately 10.3%, which is due to the increase in operating expense of the Sewer Fund of 14.9%. and the increase in operating expenses of the Solid Waste Fund of 2.5%.

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



The City receives approximately 74% of its total revenues from sales tax, charges for services, and property taxes. The remaining 26% 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, 61% of the City's expenses were for public safety, community development, and general government. Expenses for sewer operations, solid waste, public works and transportation, interest expense and other activities were between 4% and 10% 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 \$7,103,237, a decrease of \$1,022,578 in comparison with the prior year. A large component of this decrease is from the Mud to Parks Grant and the IGIG Grant. These are grants from the State of Illinois, and as of April 30, 2016, the City was still waiting for large reimbursements from the State. Approximately 17% of the total governmental fund balances amount (\$1,178,222) 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 \$5,405,604, while the total fund balance reached \$5,635,841. 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 55.4% of total General Fund expenditures, while total fund balance represents 57.7% of that same amount.

The fund balance of the City's General Fund increased by \$309,817 during the current fiscal year. A large component of this increase is the lower than expected expenditures in the Public Works Street Department, which were \$124,618 lower 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.

Net position of the Sewer Fund at the end of the year amounted to \$12,164,439, and those for the Solid Waste Fund amounted to \$247,429. The total growth in net assets for both funds was \$107,314 and \$24,549, 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 \$104,269 (or 1.0% decrease in appropriations) and can be briefly summarized as follows:

- \$40,223 in decreases in general government activities (mainly due to a decrease in salaries)
- \$79,696 in increases in public safety (mainly due to increases in salaries for police services)
- \$24,559 in decreases for public works and transportation (mainly due to decreases in fuel costs for the street department)
- \$4,439 in miscellaneous decreases in community development activities
- \$17,744 in decreases for other expenditures (mainly due to decreases in fuel costs)

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, 2016, amounts to \$32,627,343 (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 .4% (a .8% decrease for governmental activities and a .6% increase for business-type activities).

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

- The E 19th Street Sanitary Sewer and Hayes Lift Station project was completed during the fiscal year. Expenditures for the project during the fiscal year ending April 30, 2016 totaled \$67,477. Total expenditures since the beginning of the project were \$456,908.
- The Avenue L Reconstruction Project was completed during the fiscal year ended April 30, 2016 at a cost of \$397,001.
- The West LeFevre Road Reconstruction Project was completed during the fiscal year ended April 30, 2016 at a cost of \$144,799.

Capital Assets at Year End
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2015 - FY 2016
Land	\$ 1.2	\$ 1.1	\$ 0.1	\$ 0.1	\$ 1.3	\$ 1.2	8.3%
Construction in progress	1.1	0.6	0.3	0.5	1.4	1.1	27.3%
Buildings and equipment	13.1	13.1	7.8	7.2	20.9	20.3	3.0%
Land improvements	0.8	0.8	-	-	0.8	0.8	0.0%
Infrastructure	<u>26.7</u>	<u>26.1</u>	<u>10.9</u>	<u>10.9</u>	<u>37.6</u>	<u>37.0</u>	1.6%
Subtotal	42.9	41.7	19.1	18.7	62.0	60.4	2.6%
Less: accumulated depreciation	<u>18.7</u>	<u>17.3</u>	<u>10.6</u>	<u>10.3</u>	<u>29.3</u>	<u>27.6</u>	6.2%
Total	<u>\$ 24.2</u>	<u>\$ 24.4</u>	<u>\$ 8.5</u>	<u>\$ 8.4</u>	<u>\$ 32.7</u>	<u>\$ 32.8</u>	-0.3%

Long-term debt. At the end of the current fiscal year, the City had \$33,683,450 in bonds and notes outstanding, which is a decrease of \$3,832,376, or 10.2%, from the prior year. Of the total long-term debt, \$20,795,000, or 61.7%, is debt issued on behalf of CGH Medical Center, a component unit of the City. This debt is paid by the City, but reimbursed by the Medical Center each year.

Outstanding Debt at Year End
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015	FY 2015 - FY 2016
Bonds payable	\$ 32.7	\$ 36.2	\$ -	\$ -	\$ 32.7	\$ 36.2	-9.7%
Loans payable	-	-	0.7	0.9	0.7	0.9	-22.2%
Intergovernmental agreement	0.1	0.2	-	-	0.1	0.2	0.0%
Redevelopment agreements	<u>0.1</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.2</u>	-50.0%
Total	<u>\$ 32.9</u>	<u>\$ 36.6</u>	<u>\$ 0.7</u>	<u>\$ 0.9</u>	<u>\$ 33.6</u>	<u>\$ 37.5</u>	-10.4%

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 \$14,461,049. 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 2017 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.
- Variable fuel and utility costs and rising insurance and pension costs.
- Plant and equipment needs for replacement of aged equipment.

Amounts available for appropriation in the General Fund budget for the 2017 fiscal year are \$12,003,741, an increase of 16.0% from the final fiscal year 2016 budget of \$10,347,807. An 18.76% increase in property taxes and the implementation of a utility tax for both gas and electric 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 \$1,138,622, or approximately 10.7%, to \$11,821,715. The largest increment of this increase is as follows:

- Pension contributions are expected to increase by \$591,765, or 52.0% of the budgeted expected increase.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase by \$182,026 by the close of fiscal year 2017.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF STERLING, ILLINOIS
STATEMENT OF NET POSITION
April 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash	\$ 795,848	\$ 168,560	\$ 964,408	\$ 37,485,162
Restricted cash	-	91,504	91,504	-
Investments	7,336,544	3,461,328	10,797,872	49,915,090
Taxes receivable	5,552,751	-	5,552,751	-
Intergovernmental receivables	2,758,814	9,395	2,768,209	-
Accounts receivable (net of allowance for uncollectibles)	6,374,466	652,193	7,026,659	30,245,032
Notes receivable (net of allowance for uncollectibles)	30,116	-	30,116	-
Interest receivable	45,099	31,533	76,632	190,068
Other receivables	-	-	-	1,358,899
Estimated third-party payor settlements	-	-	-	1,185,949
Internal balances	(365,022)	365,022	-	-
Due from unconsolidated investees	-	-	-	206,466
Inventories	83,297	10,691	93,988	3,579,134
Prepaid expenses	-	-	-	3,121,247
Capital assets:				
Land and construction in progress	2,276,541	400,090	2,676,631	-
Infrastructure, net	13,139,476	-	13,139,476	-
Other capital assets, net	8,748,491	8,062,745	16,811,236	74,456,509
Assets limited as to use	-	-	-	5,435,294
Due from CGH Medical Center - bond issue	20,795,000	-	20,795,000	-
Other assets	-	-	-	1,179,564
Net equity in unconsolidated investees	-	-	-	5,330,530
Total assets	<u>67,571,421</u>	<u>13,253,061</u>	<u>80,824,482</u>	<u>213,688,944</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	9,012,527	375,021	9,387,548	11,286,003
Total assets and deferred outflows of resources	<u>76,583,948</u>	<u>13,628,082</u>	<u>90,212,030</u>	<u>224,974,947</u>
LIABILITIES				
Accounts payable	1,166,347	157,536	1,323,883	3,674,518
Claims payable	84,838	-	84,838	-
Accrued malpractice	-	-	-	1,067,353
Accrued payroll	54,691	6,392	61,083	11,325,831
Accrued interest	56,504	4,596	61,100	-
Deposits	21,337	14,571	35,908	-
Estimated third-party payor settlements	-	-	-	9,322,758
Other current liabilities	-	-	-	4,639,493
Accrued compensated absences	311,652	37,251	348,903	-
Other postemployment benefits obligation	2,167,987	-	2,167,987	-
Net pension liability	27,899,950	250,292	28,150,242	-
Long-term liabilities:				
Due within one year	3,321,656	177,295	3,498,951	4,237,749
Due in more than one year	29,616,218	568,281	30,184,499	81,984,905
Total liabilities	<u>64,701,180</u>	<u>1,216,214</u>	<u>65,917,394</u>	<u>116,252,607</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - property taxes, licenses, and grants	6,735,176	-	6,735,176	711,215
NET POSITION				
Net investment in capital assets	12,274,508	7,717,259	19,991,767	50,938,930
Restricted for:				
Special revenue	3,033,486	-	3,033,486	-
Non-spendable - inventory and prepaid expenses	83,297	-	83,297	-
Debt service	33,122	-	33,122	-
Health development	-	-	-	5,435,294
Capital projects	2,553,113	-	2,553,113	-
Unrestricted	(12,829,934)	4,694,609	(8,135,325)	51,636,901
Total net position	<u>\$ 5,147,592</u>	<u>\$ 12,411,868</u>	<u>\$ 17,559,460</u>	<u>\$ 108,011,125</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 76,583,948</u>	<u>\$ 13,628,082</u>	<u>\$ 90,212,030</u>	<u>\$ 224,974,947</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
BALANCE SHEET
GOVERNMENTAL FUNDS
April 30, 2016

	General Fund	Capital Fund	2012 CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	CBD East Tax Increment Allocation Fund	Lincolnway- Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash	\$ 4,545	\$ -	\$ 44	\$ -	\$ -	\$ -	\$ -	\$ 323,984	\$ 328,573
Investments	2,155,319	1,803,598	-	220,000	-	-	863,525	1,542,595	6,585,037
Receivables									
Taxes	3,460,951	-	-	333,934	-	171,949	604,961	980,956	5,552,751
Intergovernmental	1,332,639	187,933	-	20,000	-	-	-	1,218,242	2,758,814
Accounts receivable	60,860	-	-	-	-	-	8,251	375	69,486
Notes	-	-	-	-	-	-	-	30,116	30,116
Interest	5,218	2,954	-	-	-	-	-	29,483	37,655
Inventory	83,297	-	-	-	-	-	-	-	83,297
Due from other funds	2,321,910	992,574	-	221,757	-	-	-	741,238	4,277,479
TOTAL ASSETS	\$ 9,424,739	\$ 2,987,059	\$ 44	\$ 795,691	\$ -	\$ 171,949	\$ 1,476,737	\$ 4,866,989	\$ 19,723,208
LIABILITIES									
Accounts payable	\$ 198,289	\$ 274,151	\$ -	\$ 42,946	\$ 22,716	\$ -	\$ 219,094	\$ 409,070	\$ 1,166,266
Accrued payroll	46,186	-	-	-	-	-	-	8,505	54,691
Deposits	3,760	-	-	-	-	-	-	17,577	21,337
Due to other funds	-	-	-	-	4,170	90,768	2,892,911	1,654,652	4,642,501
Total liabilities	248,235	274,151	-	42,946	26,886	90,768	3,112,005	2,089,804	5,884,795
DEFERRED INFLOWS OF RESOURCES									
Deferred inflows - property taxes	3,540,663	51,660	-	333,934	-	171,949	604,961	2,032,009	6,735,176
FUND EQUITY									
Fund balance									
Nonspendable	83,297	-	-	-	-	-	-	30,116	113,413
Restricted	146,940	-	44	418,811	-	-	-	2,584,559	3,150,354
Committed	-	2,661,248	-	-	-	-	-	-	2,661,248
Unassigned	5,405,604	-	-	-	(26,886)	(90,768)	(2,240,229)	(1,869,499)	1,178,222
Total fund equity	5,635,841	2,661,248	44	418,811	(26,886)	(90,768)	(2,240,229)	745,176	7,103,237
TOTAL LIABILITIES AND FUND EQUITY	\$ 9,424,739	\$ 2,987,059	\$ 44	\$ 795,691	\$ -	\$ 171,949	\$ 1,476,737	\$ 4,866,989	\$ 19,723,208

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, 2016

Total governmental fund balances		\$ 7,103,237
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 \$18,695,629		24,164,508
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		5,027,108
Advance for theater renovation loan		1,275,317
Advance of bond proceeds to CGH Medical Center		20,795,000
Deferred outflows of resources related to pensions that do not relate to current financial resources and are not reported in the governmental funds		9,012,527
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligations bonds payable		(30,035,000)
Tax increment bonds payable		(2,650,000)
Redevelopment agreements payable		(128,000)
Notes payable		(124,875)
Other postemployment benefit obligation		(2,167,987)
Compensated absences		(311,652)
Net pension liability		(27,899,950)
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.		(56,504)
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	\$ 1,228,782	
Liabilities	<u>(84,919)</u>	<u>1,143,863</u>
Total net position - governmental activities		<u>\$ 5,147,592</u>

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

CITY OF STERLING, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS
Year Ended April 30, 2016

	General Fund	Capital Fund	2012 CGH Medical Center Bond Fund	CBD Tax Increment Allocation Fund	CBD East Tax Increment Allocation Fund	Lincolnway- Lynn Tax Increment Allocation Fund	Rock River Tax Increment Allocation Fund	Other Governmental Funds	Total Governmental Funds
REVENUES									
Taxes	\$ 6,956,873	\$ 1,219,542	\$ -	\$ 433,471	\$ -	\$ 163,703	\$ 564,940	\$ 987,145	\$ 10,325,674
Intergovernmental	2,225,781	-	-	-	-	-	-	1,034,054	3,259,835
Licenses and permits	676,518	-	-	-	-	-	-	-	676,518
Fines and penalties	204,464	-	-	-	-	-	-	-	204,464
Charges for services	68,461	25,150	-	-	-	-	-	252,682	346,293
Investment income	41,492	19,484	-	291	-	22	107	29,122	90,518
Donations	54,352	29,340	-	-	-	-	-	108,717	192,409
Other	263,337	-	3,398,768	-	-	466,088	8,251	138,371	4,274,815
Total revenues	10,491,278	1,293,516	3,398,768	433,762	-	629,813	573,298	2,550,091	19,370,526
EXPENDITURES									
Current									
General government	403,469	223	-	-	-	-	-	664,755	1,068,447
Public safety	4,410,815	-	-	-	-	-	-	7,578	4,418,393
Public works and transportation	1,062,543	285,298	-	-	-	-	-	220,069	1,567,910
Community development	303,399	7,250	-	74,203	26,886	164,189	1,010,473	1,461,903	3,048,303
Culture and recreation	-	-	-	-	-	-	-	690,785	690,785
Other	3,580,408	-	318	-	-	-	-	-	3,580,726
Debt service									
Principal	-	-	2,630,000	25,000	-	210,000	255,000	439,349	3,559,349
Interest	-	-	768,450	-	-	256,088	8,528	172,776	1,205,842
Capital outlay	-	929,828	-	53,937	-	-	-	375,779	1,359,544
Total expenditures	9,760,634	1,222,599	3,398,768	153,140	26,886	630,277	1,274,001	4,032,994	20,499,299
Excess (deficiency) of revenues over expenditures	730,644	70,917	-	280,622	(26,886)	(464)	(700,703)	(1,482,903)	(1,128,773)
OTHER FINANCING SOURCES (USES)									
Advance for theater renovation	-	(39,960)	-	-	-	-	-	-	(39,960)
Sale of property	15,823	-	-	-	-	-	-	100,332	116,155
Operating transfers in	30,000	568,500	-	-	-	-	-	300,650	899,150
Operating transfers out	(466,650)	-	-	-	-	-	-	(402,500)	(869,150)
Total other financing sources (uses)	(420,827)	528,540	-	-	-	-	-	(1,518)	106,195
Net change in fund balance	309,817	599,457	-	280,622	(26,886)	(464)	(700,703)	(1,484,421)	(1,022,578)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR									
	5,326,024	2,061,791	44	138,189	-	(90,304)	(1,539,526)	2,229,597	8,125,815
FUND BALANCE (DEFICIT), END OF YEAR									
	\$ 5,635,841	\$ 2,661,248	\$ 44	\$ 418,811	\$ (26,886)	\$ (90,768)	\$ (2,240,229)	\$ 745,176	\$ 7,103,237

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, 2016

Net change in fund balances - total governmental funds \$ (1,022,578)

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	\$ 39,960	
Payments	(266,879)	(226,919)

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current year. 37,521

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	(228,742)
------------------------------------	-----------

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	\$ (59,819)	
Payments	3,719,756	
Payment of CGH Medical Center bonds	(2,630,000)	
Change in compensated absences	1,225	
Change in other postemployment benefit obligation	(402,911)	
Change in net pension liability	(10,109,864)	
Change in deferred outflows of resources related to pensions	5,727,088	
Accrued interest	<u>8,091</u>	(3,746,434)

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>480,736</u>
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Change in net position of governmental activities \$ (4,706,416)

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, 2016

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ 132,874	\$ 35,686	\$ 168,560	\$ 467,275
Restricted cash	91,504	-	91,504	-
Investments	3,405,611	55,717	3,461,328	751,507
Intergovernmental receivable	-	9,395	9,395	-
Accounts receivable	416,397	235,796	652,193	2,556
Accrued interest	31,533	-	31,533	7,444
Due from other funds	365,022	-	365,022	-
Inventory	8,738	1,953	10,691	-
Total current assets	<u>4,451,679</u>	<u>338,547</u>	<u>4,790,226</u>	<u>1,228,782</u>
Property and equipment				
Land	148,598	-	148,598	-
Utility system	7,778,806	18,981	7,797,787	-
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	251,492	-	251,492	-
	<u>19,074,376</u>	<u>18,981</u>	<u>19,093,357</u>	<u>-</u>
Accumulated depreciation	10,615,337	15,185	10,630,522	-
Total capital assets (net of accumulated depreciation)	<u>8,459,039</u>	<u>3,796</u>	<u>8,462,835</u>	<u>-</u>
Total assets	<u>12,910,718</u>	<u>342,343</u>	<u>13,253,061</u>	<u>1,228,782</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	<u>375,021</u>	<u>-</u>	<u>375,021</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>13,285,739</u>	<u>342,343</u>	<u>13,628,082</u>	<u>1,228,782</u>
LIABILITIES				
Current liabilities				
Accounts payable	67,634	89,902	157,536	81
Claims payable	-	-	-	84,838
Accrued payroll	5,895	497	6,392	-
Overpayments	14,148	423	14,571	-
Accrued vacation	33,159	4,092	37,251	-
Accrued interest	4,596	-	4,596	-
Current portion of notes payable	177,295	-	177,295	-
Total current liabilities	<u>302,727</u>	<u>94,914</u>	<u>397,641</u>	<u>84,919</u>
Noncurrent liabilities				
Net pension liability	250,292	-	250,292	-
Notes payable (net of current portion)	568,281	-	568,281	-
Total noncurrent liabilities	<u>818,573</u>	<u>-</u>	<u>818,573</u>	<u>-</u>
Total liabilities	<u>1,121,300</u>	<u>94,914</u>	<u>1,216,214</u>	<u>84,919</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	7,713,463	3,796	7,717,259	-
Unrestricted	4,450,976	243,633	4,694,609	1,143,863
Total net position	<u>\$ 12,164,439</u>	<u>\$ 247,429</u>	<u>\$ 12,411,868</u>	<u>\$ 1,143,863</u>
Total liabilities and net position	<u>\$ 13,285,739</u>	<u>\$ 342,343</u>	<u>\$ 13,628,082</u>	<u>\$ 1,228,782</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 REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND TYPES
Year Ended April 30, 2016

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities -	Governmental Activities - Internal Service Fund
OPERATING REVENUE				
Sewer use and hook-up fees	\$ 2,015,942	\$ -	\$ 2,015,942	\$ -
Solid waste service fees	-	1,031,496	1,031,496	-
Employer contributions	-	-	-	1,531,222
Employee contributions	-	-	-	521,612
Other revenue	2,706	-	2,706	-
Total operating revenue	<u>2,018,648</u>	<u>1,031,496</u>	<u>3,050,144</u>	<u>2,052,834</u>
OPERATING EXPENSES				
Administration	-	-	-	256,231
Life insurance premiums	-	-	-	8,359
Waste water treatment plant	631,310	-	631,310	-
Solid waste disposal	-	1,053,164	1,053,164	-
Maintenance	29,668	-	29,668	-
Billing and collection	244,875	-	244,875	-
Non-departmental	671,793	-	671,793	-
Benefit payments	-	-	-	1,319,441
Depreciation	371,924	3,796	375,720	-
Total operating expenses	<u>1,949,570</u>	<u>1,056,960</u>	<u>3,006,530</u>	<u>1,584,031</u>
Operating income (loss)	<u>69,078</u>	<u>(25,464)</u>	<u>43,614</u>	<u>468,803</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	49,466	49,466	-
Interest income	106,506	37	106,543	16,331
Net change in fair value of investments	(15,849)	-	(15,849)	(4,398)
Interest expense	(22,421)	-	(22,421)	-
Total nonoperating revenues (expenses)	<u>68,236</u>	<u>49,503</u>	<u>117,739</u>	<u>11,933</u>
Income before other financing sources (uses)	<u>137,314</u>	<u>24,039</u>	<u>161,353</u>	<u>480,736</u>
OTHER FINANCING SOURCES (USES)				
Sale of property	-	510	510	-
Operating transfers out	(30,000)	-	(30,000)	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>510</u>	<u>(29,490)</u>	<u>-</u>
Change in net position	107,314	24,549	131,863	480,736
NET POSITION, BEGINNING OF YEAR (AS RESTATED)	<u>12,057,125</u>	<u>222,880</u>	<u>12,280,005</u>	<u>663,127</u>
NET POSITION, END OF YEAR	<u>\$ 12,164,439</u>	<u>\$ 247,429</u>	<u>\$ 12,411,868</u>	<u>\$ 1,143,863</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 CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended April 30, 2016

	Business-type Activities - Enterprise Fund Sewer	Business-type Activities - Enterprise Fund Solid Waste	Total Business-type Activities	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ (35,022)	\$ -	\$ (35,022)	\$ 2,052,834
Receipts from customers	1,995,488	1,021,679	3,017,167	-
Payments to employees	(484,450)	(54,035)	(538,485)	-
Payments to suppliers	(1,088,201)	(992,150)	(2,080,351)	81
Payments for premiums, claims, and related services	180,847	-	180,847	(1,557,588)
Net cash provided by (used in) operating activities	<u>568,662</u>	<u>(24,506)</u>	<u>544,156</u>	<u>495,327</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
State replacement tax	-	52,452	52,452	-
Operating transfers to other funds	(30,000)	-	(30,000)	-
Net cash provided by (used in) non-capital financing activities	<u>(30,000)</u>	<u>52,452</u>	<u>22,452</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on notes payable	(172,439)	-	(172,439)	-
Interest paid on notes payable	(23,333)	-	(23,333)	-
Capital assets acquired	(424,946)	-	(424,946)	-
Proceeds from the sale of capital assets	-	510	510	-
Net cash provided by (used in) capital financing activities	<u>(620,718)</u>	<u>510</u>	<u>(620,208)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(203,115)	(41,436)	(244,551)	(356,097)
Proceeds from the sale of investments	321,505	-	321,505	41,756
Interest received	106,056	37	106,093	14,966
Net cash provided by (used in) investing activities	<u>224,446</u>	<u>(41,399)</u>	<u>183,047</u>	<u>(299,375)</u>
NET CHANGE IN CASH	142,390	(12,943)	129,447	195,952
CASH, BEGINNING OF YEAR	81,988	48,629	130,617	271,323
CASH, END OF YEAR	<u>\$ 224,378</u>	<u>\$ 35,686</u>	<u>\$ 260,064</u>	<u>\$ 467,275</u>
RECONCILIATION OF OPERATING INCOME TO NET				
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 69,078	\$ (25,464)	\$ 43,614	\$ 468,803
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	371,924	3,796	375,720	-
Effects of changes in operating assets and liabilities				
Accounts receivable	(23,465)	(10,000)	(33,465)	54,135
Inventory	(4,241)	(831)	(5,072)	-
Due from other funds	(35,022)	-	(35,022)	-
Deferred outflows related to pensions	(115,959)	-	(115,959)	-
Accounts payable	16,835	9,511	26,346	81
Claims payable	-	-	-	(27,692)
Accrued payroll	(15,010)	(1,897)	(16,907)	-
Overpayments	305	183	488	-
Compensated absences	7,411	196	7,607	-
Net pension liability	296,806	-	296,806	-
	<u>\$ 568,662</u>	<u>\$ (24,506)</u>	<u>\$ 544,156</u>	<u>\$ 495,327</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, 2016

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund	Agency Blackhawk Area Task Force Fund
ASSETS			
Cash	\$ 14,375	\$ 1,189	\$ 457,198
Accrued interest receivable	53,246	-	-
Investments, at fair value	23,896,017	-	258,621
Due from other funds	4,846	-	-
TOTAL ASSETS	23,968,484	1,189	715,819
LIABILITIES			
Accounts payable	-	-	8,616
Due to others	-	-	707,203
Due to other funds	4,846	-	-
TOTAL LIABILITIES	4,846	-	715,819
NET POSITION	\$ 23,963,638	\$ 1,189	\$ -

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, 2016

	Pension Trust Funds	Private Purpose Trust Trust Committee Fund
ADDITIONS		
Contributions		
Employer	\$ 1,393,191	\$ -
Plan members	278,298	-
Total contributions	1,671,489	-
Investment income		
Interest earned	607,900	1
Net change in fair value	(922,716)	-
Total investment income	(314,816)	1
Less: investment expense	(52,560)	-
Net investment income	(367,376)	1
Federal forfeiture	-	-
State forfeiture	-	-
Drug fines and restitution	-	-
Other revenue	-	-
Total other revenue	-	-
Total additions	1,304,113	1
DEDUCTIONS		
Administrative	50,488	-
Benefits	2,465,978	-
Other	-	-
Total deductions	2,516,466	-
CHANGE IN NET POSITION	(1,212,353)	1
NET POSITION, BEGINNING OF YEAR	25,175,991	1,188
NET POSITION, END OF YEAR	\$ 23,963,638	\$ 1,189

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, 2016

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, 2016

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, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balance, 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, 2016

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:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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

Reporting Major 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.

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.

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.

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

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 property taxes and reimbursements from the developer.

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 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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

Reporting Major Funds (Continued)

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.

Under the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the District may report any governmental or enterprise fund (but not internal service funds or fiduciary funds) as a major fund if the government’s officials believe the fund is “particularly important to financial statement users”. The City has chosen to include the Solid Waste fund as a major fund even though the fund calculations do not classify it as a major fund. The City views this fund particularly important to the financial users.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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

BASIS OF ACCOUNTING (CONTINUED)

Modified Accrual

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

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

ESTIMATES

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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 20, 2015 and was amended on April 18, 2016. 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, 2016

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, 2016

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. Donated 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.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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, 2016 represents installments of the 2014 property taxes which were received during 2015. The 2015 property tax levy has been deferred at April 30, 2016, as it was budgeted for fiscal year 2017.

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, other postemployment benefits obligation, and net pension obligations.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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 \$1,518,716 and the bank balances totaled \$1,643,727. Cash on hand was \$9,958.

At year end, the investment maturities are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	10 or more
Certificates of Deposit	\$ 1,522,522	\$ 652,725	\$ 843,722	\$ 26,075	\$ -
Money Market	3,056,859	3,056,859	-	-	-
U.S. Treasuries	11,572,293	1,661,428	6,913,959	2,631,804	365,102
U.S. Agencies	2,490,532	164	2,311	231,046	2,257,011
IL Treas. Investment	2,539,237	2,539,237	-	-	-
Mutual Funds	10,037,202	10,037,202	-	-	-
Stock	3,733,865	3,733,865	-	-	-
	<u>\$ 34,952,510</u>	<u>\$ 21,681,480</u>	<u>\$ 7,759,992</u>	<u>\$ 2,888,925</u>	<u>\$ 2,622,113</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, 2016, the City had \$2,539,237 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 2. Deposits and Investments (Continued)

Interest Rate Risk

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

Credit Risk

The City's investment policy is to apply the prudent person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to conform with legal requirements, seek reasonable income, preserve capital, maintain liquidity, and in general, avoid speculative instruments. The City's investments in the Illinois Treasurers' Investment Pool maintain a rating of 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, 2016, 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 in the City's name.

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 12.1% of the City's total investments and is reported in the Police and Fire Pension Trust Funds.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 3. Capital Assets

Capital asset activity for the year ended April 30, 2016, was as follows:

	<u>Balance at May 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,045,385	\$ 134,512	\$ -	\$ 1,179,897
Construction in Progress	646,108	754,081	303,545	1,096,644
Total capital assets not being depreciated	<u>\$ 1,691,493</u>	<u>\$ 888,593</u>	<u>\$ 303,545</u>	<u>\$ 2,276,541</u>
Capital Assets being depreciated				
Buildings	\$ 8,092,912	\$ 6,807	\$ -	\$ 8,099,719
Equipment	4,994,175	56,855	59,709	4,991,321
Land Improvements	787,920	-	-	787,920
Infrastructure	26,103,017	601,619	-	26,704,636
Total capital assets being depreciated	<u>\$ 39,978,024</u>	<u>\$ 665,281</u>	<u>\$ 59,709</u>	<u>\$ 40,583,596</u>
Less accumulated depreciation for				
Buildings	\$ 977,787	\$ 212,090	\$ -	\$ 1,189,877
Equipment	3,310,720	292,774	-	3,603,494
Land Improvements	321,235	15,863	-	337,098
Infrastructure	12,704,046	861,114	-	13,565,160
Total accumulated depreciation	<u>\$ 17,313,788</u>	<u>\$ 1,381,841</u>	<u>\$ -</u>	<u>\$ 18,695,629</u>
Total capital assets being depreciated, net	<u>\$ 22,664,236</u>	<u>\$ (716,560)</u>	<u>\$ 59,709</u>	<u>\$ 21,887,967</u>
Governmental activities capital assets, net	<u>\$ 24,355,729</u>	<u>\$ 172,033</u>	<u>\$ 363,254</u>	<u>\$ 24,164,508</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 3. Capital Assets (Continued)

	<u>Balance at May 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at April 30, 2016</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 148,598	\$ -	\$ -	\$ 148,598
Construction in Progress	448,526	259,874	456,908	251,492
Total capital assets not being depreciated	<u>\$ 597,124</u>	<u>\$ 259,874</u>	<u>\$ 456,908</u>	<u>\$ 400,090</u>
Capital Assets being depreciated				
Buildings and equipment	\$ 7,175,807	\$ 621,980	\$ -	\$ 7,797,787
Interceptors, mains, and pump stations	1,563,440	-	-	1,563,440
Storm sewers	5,530,742	-	-	5,530,742
Sewer separation work	3,801,298	-	-	3,801,298
Total capital assets being depreciated	<u>\$ 18,071,287</u>	<u>\$ 621,980</u>	<u>\$ -</u>	<u>\$ 18,693,267</u>
Less accumulated depreciation for				
Buildings and equipment	\$ 4,246,756	\$ 161,477	\$ -	\$ 4,408,233
Interceptors, mains, and pump stations	1,169,105	26,887	-	1,195,992
Storm sewers	2,238,793	111,584	-	2,350,377
Sewer separation work	2,600,148	75,772	-	2,675,920
Total accumulated depreciation	<u>\$ 10,254,802</u>	<u>\$ 375,720</u>	<u>\$ -</u>	<u>\$ 10,630,522</u>
Total capital assets being depreciated, net	<u>\$ 7,816,485</u>	<u>\$ 246,260</u>	<u>\$ -</u>	<u>\$ 8,062,745</u>
Business-type activities capital assets, net	<u>\$ 8,413,609</u>	<u>\$ 506,134</u>	<u>\$ 456,908</u>	<u>\$ 8,462,835</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 3. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 290,536
Public safety	163,069
Public works and transport.	799,541
Community Development	17,657
Culture and recreation	31,277
Other	79,761
Total depreciation expense	<u>\$ 1,381,841</u>
Business-type activities:	
Sewer	\$ 371,924
Solid waste	3,796
Total depreciation expense	<u>\$ 375,720</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 \$2,458,828 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, 2015	\$ 112,530
Claims incurred	1,319,441
Claims paid	<u>(1,347,133)</u>
Claims payable, April 30, 2016	<u>\$ 84,838</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 5. Long-Term Debt

Transactions for the year ended April 30, 2016 are summarized as follows:

	<u>Balance at April 30, 2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2016</u>	<u>Due within 1 year</u>
Governmental activities:					
Bonds payable	\$ 36,195,406	\$ -	\$ 3,510,406	\$ 32,685,000	\$ 3,250,000
Redevelopment agreements	153,000	-	25,000	128,000	25,000
Intergovernmental agrmts	249,406	59,818	184,349	124,875	46,656
Compensated absences	312,877	-	1,225	311,652	311,652
	<u>\$ 36,910,689</u>	<u>\$ 59,818</u>	<u>\$ 3,720,980</u>	<u>\$ 33,249,527</u>	<u>\$ 3,633,308</u>
Business-type activities:					
Notes payable	\$ 918,015	\$ -	\$ 172,439	\$ 745,576	\$ 177,295
Compensated absences	29,644	7,607	-	37,251	37,251
	<u>\$ 947,659</u>	<u>\$ 7,607</u>	<u>\$ 172,439</u>	<u>\$ 782,827</u>	<u>\$ 214,546</u>

Governmental Activities

Bonds Payable

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

<u>Year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 160,000	\$ 6,000

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. Total motor fuel tax revenue was \$428,894 and principle and interest paid totaled \$168,813.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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. The bonds were foreclosed on during the fiscal year ended April 30, 2016.

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

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

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

Payments are due as follows:

Year Ending	Principal	Interest
<u>April 30</u>		
2017	\$ 280,000	\$ 100,700
2018	310,000	90,060
2019	340,000	78,280
2020	375,000	65,360
2021	410,000	51,110
2022-2023	935,000	54,150
	<u>\$ 2,650,000</u>	<u>\$ 439,660</u>

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

During the fiscal year ended April 30, 2011, the City issued \$6,120,000 of General Obligation Bonds (Alternate Revenue Source), Series 2010A for the Lincolnway-Lynn Tax Increment Financing Project. These bonds are payable solely from the taxes levied in the tax increment allocation district sales tax revenue has also been pledged. 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. Total sales tax revenue totaled \$3,809,641 and principle and interest totaled \$466,088.

Payments are due as follows:

Year Ending	Principal	Interest
April 30		
2017	\$ -	\$ 124,894
2018	225,000	246,075
2019	235,000	238,132
2020	250,000	229,152
2021	260,000	219,203
2022-2026	1,615,000	898,042
2027-2031	2,230,000	427,351
2032	455,000	11,944
	<u>\$ 5,270,000</u>	<u>\$ 2,394,793</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. Total sales tax revenue and general property tax was \$4,196,741 and principle and interest totaled \$365,490.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending	Principal	Interest
April 30		
2017	\$ 115,000	\$ 143,682
2018	120,000	140,709
2019	135,000	137,508
2020	145,000	133,536
2021	150,000	129,070
2022-2026	880,000	563,947
2027-2031	1,135,000	374,742
2032-2035	1,130,000	119,007
	<u>\$ 3,810,000</u>	<u>\$ 1,742,201</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, 2016

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

Bonds Payable (Continued)

Payments are due as follows:

Year Ending		
April 30	Principal	Interest
2017	\$ 2,695,000	\$ 367,788
2018	2,750,000	668,200
2019	2,830,000	585,700
2020	2,930,000	500,800
2021	3,055,000	383,600
2022-2023	6,535,000	394,600
	<u>\$ 20,795,000</u>	<u>\$ 2,900,688</u>

Redevelopment Agreements

The City entered into a redevelopment agreement on December 3, 2003 which included a note for \$100,000 for redevelopment improvements. The redevelopment note bears no interest and matures on January 1, 2023. As of April 30, 2016, 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, 2016, the balance is \$60,000.

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 Rock River Bridge. The intergovernmental agreement note bears no interest and matures on January 16, 2019. During the fiscal year ended April 30, 2016, the State of Illinois increased the note by \$59,818 due to a final calculation of costs. As of April 30, 2016, the balance is \$124,875.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 5. Long-Term Debt (Continued)

Governmental Activities (Continued)

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, 2016 are as follows:

Governmental activities	\$ 311,652
Business-type activities	\$ 37,251

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, 2016, the balance is \$273,899.

The City entered into a loan agreement for \$826,930 with the Illinois Environmental Protection Agency dated October 7, 2005, with final payment due February 1, 2026. Interest is at 2.50%, with payments of \$26,920 due semi-annually. The loan is guaranteed by future revenues of the City. As of April 30, 2016, the balance is \$471,677.

Debt Service Requirement to Maturity

Fiscal Year Ending April 30	1997 EPA Loan		2006 EPA Loan	
	Principal	Interest	Principal	Interest
2017	\$ 134,985	\$ 6,947	\$ 42,310	\$ 11,529
2018	138,914	3,018	43,374	10,465
2019	-	-	44,466	9,374
2020	-	-	45,584	8,255
2021	-	-	46,731	7,108
2022-2026	-	-	249,212	17,305
	<u>\$ 273,899</u>	<u>\$ 9,965</u>	<u>\$ 471,677</u>	<u>\$ 64,036</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 6. Legal Debt Margin

The following schedule illustrates the legal debt margin of the City as of April 30, 6:

Assessed valuation - 2015	<u>\$ 167,664,342</u>	
Statutory Debt Limitation (8.625% of assessed limitation)		\$ 14,461,049
Total debt:		
Alternate revenue source bonds	30,035,000	
Tax increment revenue bonds	2,650,000	
EPA loans payable	<u>745,576</u>	<u>33,430,576</u>
Less:		
Alternate revenue source bonds	30,035,000	
Tax increment revenue bonds	2,650,000	
EPA loans payable	<u>745,576</u>	<u>33,430,576</u>
Total amount of debt applicable to debt limit		<u>-</u>
Legal Debt Margin		<u>\$ 14,461,049</u>

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 Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. That report may be obtained on-line at www.imrf.org.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).

All three IMRF benefit plans have two tiers. Employees hired *before* January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of 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 the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

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 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 the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3% of the original pension amount, or
- ½ of the increase in the Consumer Price Index of the original pension amount.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Employees Covered by Benefit Terms

As of December 31, 2015, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	117
Inactive plan members entitled to but not yet receiving benefits	50
Active plan members	<u>60</u>
Total	<u><u>227</u></u>

Contributions

As set by statute, the City's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The City's annual contribution rate for calendar year 2015 was 10.27%. For the calendar year 2015, the City contributed \$264,894 to the plan. The City also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability/(Asset)

The City's net pension liability/(asset) was measured as of December 31, 2015. The total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The following are the methods and assumptions used to determine total pension liability at December 31, 2015:

Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Assumptions	
Inflation	2.75%
Salary increases	3.75% to 14.50%
Investment rate of return	7.49%

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Actuarial Assumptions (Continued)

The projected retirement age was from the experience-based table of rates that are specific to the type of eligibility condition, last updated for the 2014 valuation pursuant to an experience study of the period 2011-2013.

The IMRF-specific rates for mortality (for non-disabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives. For active members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Single Discount Rate

A Single Discount Rate of 7.49% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.57%, and the resulting single discount rate is 7.49%.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Changes in the Net Pension Liability/(Asset)

	Pension Liability (A)	Plan Net Position (B)	Net Pension Liability (Asset) (A)-(B)
Balances at December 31, 2014	\$ 25,008,360	\$ 25,255,777	\$ (247,417)
Changes for the year:			
Service cost	282,450	-	282,450
Interest on the total pension liability	1,810,463	-	1,810,463
Differences between expected and actual experience of the total pension liability	522,749	-	522,749
Changes of assumptions	28,671	-	28,671
Contributions - employer	-	277,342	(277,342)
Contributions - employees	-	140,306	(140,306)
Net investment income	-	122,273	(122,273)
Benefit payments, including refunds of employee contributions	(2,020,165)	(2,020,165)	-
Other (net transfer)	-	687,407	(687,407)
Net changes	624,168	(792,837)	1,417,005
Balances at December 31, 2015	\$ 25,632,528	\$ 24,462,940	\$ 1,169,588

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the plan's net pension liability/(asset), calculated using a single discount rate of 7.49% as well as what the plan's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.49%) or 1 percentage point higher (8.49%) than the current rate:

	1% Decrease (6.49%)	Current Discount Rate (7.49%)	1% Increase (8.49%)
Net pension liability (asset)	\$ 4,270,561	\$ 1,169,588	\$ (1,384,845)

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

Illinois Municipal Retirement (Continued)

Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the City recognized pension income of \$58,086. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 343,517	\$ -
Changes of assumptions	18,841	-
Net difference between projected and actual earnings on pension plan investments	1,390,075	-
Employer contributions made subsequent to Plan's membership date but before City's fiscal year end	85,849	-
Total	\$ 1,838,282	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:

2016	\$ 622,430
2017	520,815
2018	347,519
2019	347,518
2020	-
Thereafter	-
Total	\$ 1,838,282

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems

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, 2016, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	26
Inactive plan members entitled to but not yet receiving benefits	2
Current employees	<u>22</u>
Total	<u>50</u>

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Benefits Provided (Continued)

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 1st 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 preceding 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 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, 2016, the City's contribution was 36.10% of covered payroll.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

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.

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 - US Government bonds	34%	3.40%
Fixed income - US Corporate bonds	6%	2.70%
Domestic equities	48%	7.10%
International equities	12%	1.10%
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, 2016

Note 7. Employee Retirement Systems (Continued)

Police 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 2016 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, 2016 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, 2016 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2016, more than 5% of the Fund's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 18.77% of the Fund's total investments

Investment Rate of Return

For the year ended April 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was .60%. 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, 2016

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2016:

	Investment Maturities (in years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 or more</u>
Fixed income securities	<u>\$ 3,920,089</u>	<u>\$ 545,938</u>	<u>\$ 1,574,321</u>	<u>\$ 1,064,644</u>	<u>\$ 735,186</u>

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.

Net Pension Liability

The components of the net pension liability of the Police Pension Plan as of April 30, 2016 were as follows:

Total pension liability	\$ 25,497,758
Plan fiduciary net position	12,518,938
City's net pension liability	12,978,820
Plan fiduciary net position as a percentage of the total pension liability	49.10%

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, 2016

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, 2016 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2016
Actuarial cost method	Entry age normal (Level %)
Assumptions	
Inflation	2.50%
Salary increases	3.25%
Interest rate	6.50%
COLA	2.50%
Asset valuation	Market value

Mortality rates were based on the L&A 2016 Illinois Police Mortality Rates.

Discount Rate

The discount rate used to measure the total pension liability was 6.40%. 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 6.40% was blended with the index rate of 3.32% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2016 to arrive at a discount rate of 6.40% used to determine the total pension liability.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Changes in the Net Pension Liability

	Liability (A)	Net Position (B)	Liability (Asset) (A)-(B)
Balances at April 30, 2015	\$ 21,821,570	\$ 13,010,644	\$ 8,810,926
Changes for the year:			
Service cost	359,321	-	359,321
Interest on the total pension liability	1,361,202	-	1,361,202
Differences between expected and actual experience of the total pension liability	503,986	-	503,986
Changes of assumptions	2,557,269	-	2,557,269
Contributions - employer	-	703,470	(703,470)
Contributions - employees	-	173,505	(173,505)
Net investment income	-	(231,811)	231,811
Benefit payments, including refunds of employee contributions	(1,105,590)	(1,105,590)	-
Other (net transfer)	-	(31,280)	31,280
Net changes	3,676,188	(491,706)	4,167,894
Balances at April 30, 2016	<u>\$ 25,497,758</u>	<u>\$ 12,518,938</u>	<u>\$ 12,978,820</u>

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 6.40% 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 (7.40%) or 1 percentage point higher (5.40%) than the current rate:

	1% Decrease (5.40%)	Current Discount Rate (6.40%)	1% Increase (7.40%)
Net pension liability	<u>\$ 16,787,045</u>	<u>\$ 12,978,820</u>	<u>\$ 9,900,426</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Police Pension (Continued)

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2016, the City recognized pension expense of \$1,448,616. At April 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 422,697	\$ -
Changes of assumptions	2,144,806	-
Net difference between projected and actual earnings on pension plan investments	855,244	-
Total	\$ 3,422,747	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:

2017	\$ 707,564
2018	707,564
2019	707,564
2020	707,564
2021	493,752
Thereafter	98,743

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

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, 2016, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	31
Inactive plan members entitled to but not yet receiving benefits	-
Current employees	<u>19</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 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Benefits Provided (Continued)

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 1st 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 funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2016, the City's contribution was 51.7% of covered payroll.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

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	34%	1.98%
US equity	6%	3.30%
Foreign equity	48%	-0.58%
Cash	12%	-0.64%

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, 2016

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 2016 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, 2016 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, 2016 for debt securities, equity securities and mutual funds and contract values for insurance contracts.

Investment Concentrations

As of April 30, 2016, more than 5% of the Fund's investments were in the Vanguard Total Stock Market Index mutual fund. This mutual fund is 16.59% of the Fund's total investments

Investment Rate of Return

For the year ended April 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -1.10%. 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, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2016:

	Investment Maturities (in years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 or more</u>
Fixed income securities	<u>\$ 4,551,039</u>	<u>\$ 420,199</u>	<u>\$ 2,719,686</u>	<u>\$ 982,431</u>	<u>\$ 428,723</u>

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, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Custodial Credit Risk (Continued)

The components of the net pension liability of the Firefighters' Pension Plan as of April 30, 2016 were as follows:

Total pension liability	\$ 25,446,534
Plan fiduciary net position	11,444,700
City's net pension liability	14,001,834
Plan fiduciary net position as a percentage of the total pension liability	45.00%

Net Pension Liability

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, 2016 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2016
Actuarial cost method	Entry age normal (Level %)
Assumptions	
Inflation	2.50%
Salary increases	3.25%
Interest rate	6.50%
COLA	2.50%
Asset valuation	Market value

Mortality rates were based on the L&A 2016 Illinois Firefighters Mortality Rates.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.50%. 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 6.50% was blended with the index rate of 3.32% for tax exempt general obligation municipal bonds rated AA or better at April 30, 2016 to arrive at a discount rate of 6.50% used to determine the total pension liability.

Changes in the Net Pension Liability

	Liability (A)	Net Position (B)	Liability (Asset) (A)-(B)
Balances at April 30, 2015	\$ 21,191,021	\$ 12,165,347	\$ 9,025,674
Changes for the year:			
Service cost	277,986	-	277,986
Interest on the total pension liability	1,333,204	-	1,333,204
Differences between expected and actual experience of the total pension liability	1,254,778	-	1,254,778
Changes of assumptions	2,749,933	-	2,749,933
Contributions - employer	-	689,721	(689,721)
Contributions - employees	-	104,793	(104,793)
Net investment income	-	(135,565)	135,565
Benefit payments, including refunds of employee contributions	(1,360,388)	(1,360,388)	-
Other (net transfer)	-	(19,208)	19,208
Net changes	4,255,513	(720,647)	4,976,160
Balances at April 30, 2016	<u>\$ 25,446,534</u>	<u>\$ 11,444,700</u>	<u>\$ 14,001,834</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

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 6.50% 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 (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net pension liability	\$ 17,382,734	\$ 14,001,834	\$ 11,217,978

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2016, the City recognized pension expense of \$1,539,362. At April 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,065,520	\$ -
Changes of assumptions	2,335,161	-
Net difference between projected and actual earnings on pension plan investments	<u>725,838</u>	<u>-</u>
Total	<u>\$ 4,126,519</u>	<u>\$ -</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Discount Rate Sensitivity

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended April 30:	
2017	\$ 785,490
2018	785,490
2019	785,490
2020	785,490
2021	604,030
Thereafter	380,531

Significant Investments

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

Funded Status

The funded status of the plans as of December 31, 2015 (for IMRF) and as of April 30, 2016 (for Police and Firefighters' Pension Funds), based on actuarial valuations performed as of the same date, is as follows. The actuarial assumptions used to 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:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 7. Employee Retirement Systems (Continued)

Firefighters' Pension (Continued)

Funded Status (Continued)

		Illinois Municipal Retirement
Actuarial accrued liability (AAL)	\$	9,872,615
Actuarial value of plan assets		9,217,980
Unfunded actuarial accrued liability (UAAL)		654,635
Funded ratio (Actuarial value of the plan assets/AAL)		93.37%
Covered payroll (Active plan members)		2,579,296
UAAL as a percentage of covered payroll		25.38%

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 \$2,167,987 as of April 30, 2016. Additional disclosures required by this statement are included below.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 8. Other Postemployment Benefits (Continued)

Plan Description

In addition to providing the pension benefits described in Note 7, the City provides postemployment health care benefits (OPEB) for retired employees through a single-employer health care plan that provides medical, prescription drug, and dental benefits to all active and retired employees and their eligible dependents. Retiree coverage begins at IMRF retirement age of at least 55 and continues until the retiree is Medicare eligible.

The benefits, benefit levels, employee contributions, and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the City's governmental and business-type activities.

Membership

Membership in the OPEB comprised the following at April 30, 2016:

Retirees and beneficiaries currently receiving benefits	42
Terminated employees entitled to benefits but not yet receiving them	-
Active employees:	
Vested	4
Nonvested	<u>81</u>
Total	<u>127</u>
 Participating employers	 <u>1</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 8. Other Postemployment Benefits (Continued)

Funding Policy

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

Annual OPEB Costs and Net OPEB Obligations

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

The annual OPEB cost is the amount the City charges as the cost of the postemployment health care benefits each fiscal year. If there is no net OPEB obligation, then the annual OPEB cost is equal to the ARC. However, if there is a net OPEB obligation, the annual OPEB cost reflects adjustment for interest on the net OPEB obligation. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended April 30, 2016 was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
April 30, 2016	\$ 291,536	\$ 326,537	112%	\$ 2,167,987
April 30, 2013	378,966	168,158	44%	1,765,076

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 8. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

The net OPEB obligation as of April 30, 2016 was calculated as follows:

Annual required contribution	\$ 276,849
Interest on net pension obligation	88,120
Adjustment to annual required contribution	(73,433)
Annual OPEB cost	<u>\$ 291,536</u>
Contributions made	<u>(326,537)</u>
Change in net OPEB obligation	\$ (35,001)
Net OPEB obligation, beginning of year	<u>2,202,988</u>
Net OPEB obligation, end of year	<u><u>\$ 2,167,987</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.

Funded Status and Funding Progress. The funded status of the plan as of April 30, 2016 was as follows:

Actuarial accrued liability (AAL)	\$ 5,728,303
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	5,728,303
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 4,623,967
UAAL as a percentage of covered payroll	124%

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 8. Other Postemployment Benefits (Continued)

Annual OPEB Costs and Net OPEB Obligations (Continued)

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

The unfunded actuarial accrued liability is amortized as a level percentage of pay over thirty years, resulting in an amortization of \$190,943 for the twelve-month period.

In the April 30, 2016 actuarial valuation, the entry age normal cost method was used.

Discount Rate. The discount rate as of April 30, 2016 is 4.00%. The discount rate is determined by the plan sponsor based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

Actuarial Cost Method. The method used to calculate normal cost and actuarial accrued liability is the entry age normal cost method. Under this method, the normal cost for each participant is computed as the level percentage of pay which, if paid from the earliest age the participant is eligible to enter the plan until retirement or termination, will accumulate with interest to sufficiently fund all benefits under the plan. The actuarial assumptions included a healthcare cost trend rate ranging from 5.5% to 7.5%.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 9. Interfund Balances

Operating Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Sewer Fund	\$ 30,000	\$ -
Capital Fund	-	166,000
Municipal Coliseum Fund	-	300,000
Nonmajor Governmental	-	650
	<u>30,000</u>	<u>466,650</u>
Capital Fund:		
General Fund	166,000	-
Nonmajor Governmental	402,500	-
	<u>568,500</u>	<u>-</u>
Sewer Fund:		
General Fund	-	30,000
	<u>-</u>	<u>30,000</u>
Municipal Coliseum Fund:		
General Fund	300,000	-
	<u>300,000</u>	<u>-</u>
Nonmajor Governmental		
General Fund	650	-
Capital Fund	-	402,500
	<u>650</u>	<u>402,500</u>
Total operating transfers	<u>\$ 899,150</u>	<u>\$ 899,150</u>

Transfers are used to move unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. The purposes of interfund operating transfers existing at April 30, 2016 were as follows:

The Sewer Fund transfers \$30,000 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 \$166,000 to the Capital Fund to fund capital purchases for the fiscal year.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 9. Interfund Balances (Continued)

Operating Transfers (Continued)

The Infrastructure Fund transferred \$402,500 to the General Fund when the Infrastructure Fund was closed.

The General Fund transferred \$650 to the McFalls Landfill Project Fund when the McFalls Landfill Project Fund was closed.

Due From/Due To Other Funds

	Due From Other Funds	Due To Other Funds
General Fund:		
Municipal Coliseum Fund	\$ 713,242	\$ -
Rock River Tax Increment Allocation Fund	1,408,496	
Nonmajor Governmental	200,172	-
	2,321,910	-
Capital Fund:		
Rock River Tax Increment Allocation Fund	992,574	-
Municipal Coliseum Fund:		
General Fund	-	713,242
Lincolnway-Lynn Tax Increment Allocation Fund:		
Sewer Fund	-	90,768
CDB Tax Increment Allocation Fund:		
Rock River Tax Increment Allocation Fund	221,757	-
Rock River Tax Increment Allocation Fund:		
General Fund	-	1,408,496
Capital Fund	-	992,574
CBD Tax Increment Allocation Fund	-	221,757
Sewer Fund	-	270,084
	-	2,892,911
Sewer Fund:		
Rock River Tax Increment Allocation Fund	270,084	-
Lincolnway-Lynn Tax Increment Allocation Fund	90,768	-
CBD East Tax Increment Allocation Fund	4,170	-
	365,022	-

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 9. Interfund Balances (Continued)

Due From/Due To Other Funds (Continued)

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
CDB East Tax Increment Allocation Fund:		
Sewer Fund	-	4,170
Pension Trust Funds:		
Pension Trust Funds	4,846	4,846
Nonmajor Governmental:		
General Fund	-	200,172
Nonmajor Governmental	741,238	741,238
	<u>741,238</u>	<u>941,410</u>
Total due from/due to other funds	<u>\$ 4,647,347</u>	<u>\$ 4,647,347</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.

Note 10. Other Individual Fund Disclosures

The following funds had expenditures in excess of budget for the year ended April 30, 2016:

	<u>Expenditures</u>	<u>Budget</u>
Capital Fund	\$ 1,222,599	\$ 1,118,697
CBD Tax Increment Allocation Fund	153,140	131,626
Rock River Tax Increment Allocation Fund	1,274,001	1,157,186
NWSW Redevelopment Fund	80,840	78,940

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 10. Other Individual Fund Disclosures (Continued)

The following funds had deficit fund balances or deficit retained earnings at April 30, 2016:

	Deficit
Municipal Coliseum Fund	\$ 713,434
CBD East Tax Increment Allocation Fund	26,886
Rock River Tax Increment Allocation Fund	2,240,229
Lincolnway-Lynn Tax Increment Allocation Fund	90,768
IGIG Grant Fund	593,547
Mud to Parks Grant Fund	487,461
NWSW Redevelopment Fund	108,135

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, 2016.

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.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Patient Accounts Receivable and Credit Policies (Continued)

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.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

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. Also included in the long-term liabilities is net pension liability for pension benefits employees have earned.

Net Position

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

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

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

Medicare	29%
Medicaid	6
Blue Cross	12
Other third-party payors	39
Patients	<u>14</u>
Total	<u>100%</u>

Classification of Revenues and Expenses

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

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

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

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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Net Patient Service Revenue (Continued)

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 \$2,023,000 of the claimed excess in net patient service revenue for the year ended April 30, 2016. 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, 2014.

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, 2015.

Other

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Net Patient Service Revenue (Continued)

Other (Continued)

The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 6%, respectively, of the Medical Center's net patient service revenue for the year ended April 30, 2016. 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, 2016.

The Department of Healthcare and Family Services is to make hospital access improvement payments for the period through June 30, 2018. Cash payments of \$2,983,214 were received and were included in net patient service revenue for the year ended April 30, 2016.

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 \$2,700,000 for the year ended April 30, 2016. 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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Income Taxes

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

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

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

The Medical Center applies the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Unconsolidated Investees

The Medical Center has equity in two joint ventures. The net equity accounts are adjusted for the Medical Center's proportionate share of the undistributed earnings or losses. At April 30, 2016, the net equity in unconsolidated investees is \$5,330,530.

Deposits and Investments

The carrying amount of the Medical Center's cash and deposits was \$51,718,131 and the bank balances totaled \$52,351,215. Cash on hand was \$5,770.

As of April 30, 2016, 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	\$ 21,673,814	\$ 16,878,863	\$ 4,544,951	\$ 250,000	\$ -
Mutual Funds	4,663,119	4,663,119	-	-	-
FNMA	3,438,906	-	2,736,440	702,466	-
FHLB	550,006	-	550,006	-	-
GNMA	2,131,335	-	-	-	2,131,335
FHLMC	3,868,331	2,344,016	1,496,782	-	27,533
Municipal Bonds	13,589,579	5,884,421	7,065,299	539,675	100,184
	<u>\$ 49,915,090</u>	<u>\$ 29,770,419</u>	<u>\$ 16,393,478</u>	<u>\$ 1,492,141</u>	<u>\$ 2,259,052</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.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Custodial Credit Risk - Deposits

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

Revenue Bonds Payable

At April 30, 2016, 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, 2016, are summarized as follows:

	<u>Balance at May 1, 2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at April 30, 2016</u>
2012 City of Sterling Hospital General Obligation Refunding Bonds	\$ 23,425,000	\$ -	\$ 2,630,000	\$ 20,795,000
Unamortized bond discount	1,359,044	-	179,214	1,179,830
Total revenue bonds payable	<u>\$ 24,784,044</u>	<u>\$ -</u>	<u>\$ 2,809,214</u>	<u>\$ 21,974,830</u>

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

<u>Year Ending April 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,055,000	383,600	3,438,600
2022-2023	6,535,000	394,600	6,929,600
	<u>\$ 20,795,000</u>	<u>\$ 3,268,475</u>	<u>\$ 24,063,475</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Capital Assets

Capital asset activity for the year ended April 30, 2016 was as follows:

	<u>Balance at May 1, 2015</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance at April 30, 2016</u>
Medical Center				
Land	\$ 2,649,399	\$ -	\$ -	\$ 2,649,399
Land Improvements	3,968,209	136,444	-	4,104,653
Buildings and building improvements	87,292,177	1,256,610	23,756	88,525,031
Rented buildings	822,180	-	(1,681)	823,861
Building service equipment	13,736,150	-	2,529	13,733,621
Moveable equipment	83,003,239	6,904,354	3,510,061	86,397,532
Construction in progress	932,886	7,918,268	8,297,408	553,746
Total cost	<u>\$ 192,404,240</u>	<u>\$ 16,215,676</u>	<u>\$ 11,832,073</u>	<u>\$ 196,787,843</u>
Less accumulated depreciation for:				
Land improvements	\$ 2,065,308	\$ 248,302	\$ -	\$ 2,313,610
Buildings	44,474,917	3,642,674	23,600	48,093,991
Rented buildings	223,589	1,893	(1,525)	227,007
Building service equipment	11,542,210	268,317	2,529	11,807,998
Moveable equipment	55,460,731	7,880,303	3,452,306	59,888,728
Total accumulated depreciation	<u>\$ 113,766,755</u>	<u>\$ 12,041,489</u>	<u>\$ 3,476,910</u>	<u>\$ 122,331,334</u>
Total Medical Center capital assets, net	<u>\$ 78,637,485</u>	<u>\$ 4,174,187</u>	<u>\$ 8,355,163</u>	<u>\$ 74,456,509</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, 2016 to be approximately \$1,691,000, which is included in other liabilities on the Statement of Net Position.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

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

Malpractice Insurance

During the current year, the Medical Center was insured for professional and general liability insurance coverage on a claims-made basis through the Illinois Providers' Trust (IPT). A claims-made policy covers the Medical Center for only those claims reported to IPT within reporting periods as defined in the policy. The estimated liability accrued for unpaid losses and incurred but not reported claims at year-end was \$1,067,353. 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, 2016 by opinion unit are as follows:

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 12. Fund Balances (Continued)

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Fund</u>	<u>CGH</u> <u>Medical</u> <u>Center</u> <u>Bond</u> <u>Fund</u>	<u>CBD Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>CBD Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Lincolnway-</u> <u>Lynn Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Rock River</u> <u>Tax</u> <u>Increment</u> <u>Allocation</u> <u>Fund</u>	<u>Other Gov't</u> <u>Funds</u>	<u>Total Gov't</u> <u>Funds</u>
Fund Balances:									
Nonspendable:									
Inventories	\$ 83,297	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,297
Prepaid Items	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	30,116	30,116
Total nonspendable	<u>\$ 83,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,116</u>	<u>\$ 113,413</u>
Restricted:									
Public Safety	\$ 146,940	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,315	\$ 244,255
Community Dev	-	-	44	418,811	-	-	-	685,421	1,104,276
Culture & Rec	-	-	-	-	-	-	-	1,057,707	1,057,707
Cap Imp & Equip	-	-	-	-	-	-	-	130,174	130,174
IMRF/Soc Sec	-	-	-	-	-	-	-	613,942	613,942
Total Restricted	<u>\$ 146,940</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 418,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,584,559</u>	<u>\$ 3,150,354</u>
Committed:									
Cap Imp & Equip	<u>\$ -</u>	<u>\$ 2,661,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,661,248</u>
Unassigned	<u>\$ 5,405,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,886)</u>	<u>\$ (90,768)</u>	<u>\$(2,240,229)</u>	<u>\$(1,869,499)</u>	<u>\$ 1,178,222</u>
Total Fund Balances	<u>\$ 5,635,841</u>	<u>\$ 2,661,248</u>	<u>\$ 44</u>	<u>\$ 418,811</u>	<u>\$ (26,886)</u>	<u>\$ (90,768)</u>	<u>\$(2,240,229)</u>	<u>\$ 745,176</u>	<u>\$ 7,103,237</u>

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 13. Restatement of Net Position

Net position has been restated as a result of the implementation of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. These statements require the net pension liability and related deferred outflows and deferred inflows, if any, to be reported in the financial statements. The details of this restatement are as follows:

	Governmental Activities	Business-Type Activities
Net Position - April 30, 2015 (as reported)	\$ 24,462,217	\$ 11,974,429
Add: Prior year net pension obligation - IMRF	-	46,514
Less: Prior year net pension asset - Police and Fire	(103,562)	-
Add: Deferred outflows related to pensions - IMRF	259,062	259,062
Add: Deferred outflows related to pensions - Police and Fire	3,026,377	-
Add: Net pension asset - IMRF	46,514	-
Less: Net pension liability - Police and Fire	(17,836,600)	-
Net Position - April 30, 2015 (as restated)	\$ 9,854,008	\$ 12,280,005

	Sewer Fund
Net Position - April 30, 2015 (as reported)	\$ 11,751,549
Add: Prior year net pension obligation - IMRF	46,514
Add: Deferred outflows related to pensions - IMRF	259,062
Net Position - April 30, 2015 (as restated)	\$ 12,057,125

Note 14. Impact of Pending Accounting Principles

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68* addresses accounting and financial reporting for pensions that were not covered by GASB Statement No. 68, because the plan assets are not held in trust. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015. The City has not determined the effect of this Statement.

CITY OF STERLING, ILLINOIS
NOTES TO FINANCIAL STATEMENTS
April 30, 2016

Note 14 Impact of Pending Accounting Principles (continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* addresses the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The City has not determined the effect of this Statement.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). Authoritative sources of GAAP now include (1) GASB pronouncements, (2) GASB implementation guides, and (3) AICPA literature specifically cleared by the GASB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The City has not determined the effect of this Statement.

GASB Statement No. 77, *Tax Abatement Disclosures* requires governments that enter into tax abatement agreements to disclose the certain information about the agreements to allow readers of the financial statements to better access the revenue-generating capacity of the government. The provisions in Statement No. 77 are effective for reporting periods beginning after December 15, 2015. The City has not determined the effect of this Statement.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements by requiring the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has not determined the effect of this Statement.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* amends the required the presentation to include the covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Statement are effective for reporting period in which the measurement date of the pension liability is after June 15, 2017. The City has not determined the effect of this Statement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
SCHEDULE OF FUNDING PROGRESS
April 30, 2016

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}
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Other Postemployment Benefits

4/30/16	\$	-	\$ 5,728,303	\$ 5,728,303	0.00%	\$ 4,623,967	123.88%
4/30/13		-	7,235,440	7,235,440	0.00%	7,808,958	92.66%

Notes to schedule:

Valuation date: Actuarially determined contribution rates are calculated as of May 1 of the fiscal year

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal cost
Amortization method:	Level percent of pay
Remaining amortization period:	30 years
Asset valuation method:	Market
Rate of compensation:	4%
Healthcare cost trend rate:	7% for 2016, declining to an ultimate rate of 5.5% for 2025 and later years
Investment rate of return:	4%

CITY OF STERLING, ILLINOIS
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2016

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 282,450	\$ 295,014
Interest	1,810,463	1,683,924
Changes of benefit terms	-	-
Differences between expected and actual experience	522,749	835,416
Changes of assumptions	28,671	834,269
Benefit payments, including refunds of member contributions	(2,020,165)	(1,890,156)
Net change in total pension liability	624,168	1,758,467
Total pension liability - beginning	25,008,360	23,249,893
Total pension liability - ending	\$ 25,632,528	\$ 25,008,360
Plan fiduciary net position		
Contributions - employer	\$ 277,342	\$ 301,519
Contributions - member	140,306	229,481
Net investment income	122,273	1,451,081
Benefit payments, including refunds of member contributions	(2,020,165)	(1,890,156)
Other (net transfer)	687,407	696,058
Net change in plan fiduciary net position	(792,837)	787,983
Plan net position - beginning	25,255,777	24,467,794
Plan net position - ending	\$ 24,462,940	\$ 25,255,777
Employer's net pension liability	\$ 1,169,588	\$ (247,417)
Plan fiduciary net position as a percentage of the total pension liability	95.44%	100.99%
Covered employee payroll	\$ 2,579,296	\$ 2,637,839
Employer's net pension liability as a percentage of covered-employee payroll	45.35%	-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.

CITY OF STERLING, ILLINOIS
POLICE PENSION FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2016

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 359,321	\$ 381,325
Interest	1,361,202	1,340,752
Changes of benefit terms	-	-
Differences between expected and actual experience	503,986	(45,677)
Changes of assumptions	2,557,269	1,506,037
Benefit payments, including refunds of member contributions	(1,105,590)	(949,786)
Net change in total pension liability	3,676,188	2,232,651
Total pension liability - beginning	21,821,570	19,588,919
Total pension liability - ending	\$ 25,497,758	\$ 21,821,570
Plan fiduciary net position		
Contributions - employer	\$ 703,470	\$ 166,568
Contributions - member	173,505	645,238
Net investment income	(231,811)	625,895
Benefit payments, including refunds of member contributions	(1,105,590)	(949,786)
Other (net transfer)	(31,280)	(25,337)
Net change in plan fiduciary net position	(491,706)	462,578
Plan net position - beginning	13,010,644	12,548,066
Plan net position - ending	\$ 12,518,938	\$ 13,010,644
Employer's net pension liability	\$ 12,978,820	\$ 8,810,926
Plan fiduciary net position as a percentage of the total pension liability	49.10%	59.62%
Covered employee payroll	\$ 1,950,742	\$ 1,625,458
Employer's net pension liability as a percentage of covered-employee payroll	665.33%	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) Covered employee payroll shown is the total covered payroll for the fiscal year for all fund members.

**CITY OF STERLING, ILLINOIS
FIREFIGHTERS' PENSION FUND
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
April 30, 2016**

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 277,986	\$ 267,801
Interest	1,333,204	1,274,276
Changes of benefit terms	-	-
Differences between expected and actual experience	1,254,778	451,161
Changes of assumptions	2,749,933	1,687,800
Benefit payments, including refunds of member contributions	(1,360,388)	(1,281,161)
Net change in total pension liability	<u>4,255,513</u>	<u>2,399,877</u>
Total pension liability - beginning	21,191,021	18,791,144
Total pension liability - ending	<u><u>\$ 25,446,534</u></u>	<u><u>\$ 21,191,021</u></u>

Plan fiduciary net position		
Contributions - employer	\$ 689,721	\$ 101,431
Contributions - member	104,793	610,272
Net investment income	(135,565)	831,636
Benefit payments, including refunds of member contributions	(1,360,388)	(1,281,161)
Other (net transfer)	(19,208)	(17,181)
Net change in plan fiduciary net position	<u>(720,647)</u>	<u>244,997</u>
Plan net position - beginning	12,165,347	11,920,350
Plan net position - ending	<u><u>\$ 11,444,700</u></u>	<u><u>\$ 12,165,347</u></u>

Employer's net pension liability	<u><u>\$ 14,001,834</u></u>	<u><u>\$ 9,025,674</u></u>
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Plan fiduciary net position as a percentage of the total pension liability	44.98%	57.41%
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Covered employee payroll	\$ 1,334,381	\$ 1,078,587
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Employer's net pension liability as a percentage of covered-employee payroll	1049.31%	836.81%
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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) Covered employee payroll shown is the total covered payroll for the fiscal year for all fund members.

CITY OF STERLING, ILLINOIS
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2016

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 264,894	\$ 298,867
Contribution in relation to the actuarially determined contribution	<u>277,342</u>	<u>301,519</u>
Contribution deficiency (excess)	<u>\$ (12,448)</u>	<u>\$ (2,652)</u>
Covered-employee payroll	\$ 2,579,296	\$ 2,637,839
Contributions as a percentage of covered- employee payroll	10.75%	11.43%

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.

CITY OF STERLING, ILLINOIS
POLICE PENSION FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 672,068	\$ 978,630
Contribution in relation to the actuarially determined contribution	<u>703,470</u>	<u>645,238</u>
Contribution deficiency (excess)	<u>\$ (31,402)</u>	<u>\$ 333,392</u>
Covered-employee payroll	\$ 1,950,742	\$ 1,625,458
Contributions as a percentage of covered-employee payroll	36.1%	39.7%

Notes to the Schedule of Contributions:

The actuarially determined contribution shown for the current year is from the May 1, 2014 actuary's report completed by Tepfer Consulting Group, LTD for the tax levy recommendation for the December 2014 tax levy.

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.

Additional information as of the latest actuarial valuation presented is as follows: The actuarial cost method was entry age normal cost; the amortization method was level percentage of pay; the interest rate assumption was 6.4% and the amortization period was 20 years.

**CITY OF STERLING, ILLINOIS
FIREFIGHTERS' PENSION FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
April 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 616,086	\$ 974,055
Contribution in relation to the actuarially determined contribution	<u>689,721</u>	<u>610,272</u>
Contribution deficiency (excess)	<u>\$ (73,635)</u>	<u>\$ 363,783</u>
Covered-employee payroll	\$ 1,334,381	\$ 1,078,587
Contributions as a percentage of covered-employee payroll	51.7%	56.6%

Notes to the Schedule of Contributions:

The actuarially determined contribution shown for the current year is from the May 1, 2014 actuary's report completed by Tepfer Consulting Group, LTD for the tax levy recommendation for the December 2014 tax levy.

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.

Additional information as of the latest actuarial valuation presented is as follows: The actuarial cost method was entry age normal cost; the amortization method was level percentage of pay; the interest rate assumption was 6.4% and the amortization period was 20 years.

CITY OF STERLING, ILLINOIS
SCHEDULE OF INVESTMENT RETURNS
April 30, 2016

**Annual Money-
Weighted Rate
of Return, Net of
Investment
Expense**

Police Pension Fund

4/30/16	0.60%
4/30/15	5.20%

Firemen Pension Fund

4/30/16	-1.10%
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, 2016

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Property taxes:				
Corporate	\$ 388,649	\$ 392,690	\$ 392,690	\$ -
Fire protection	233,190	235,615	235,615	-
Police protection	233,190	235,615	235,615	-
Liability insurance	356,954	361,793	361,793	-
Workers' compensation	116,127	117,494	117,494	-
Road and bridge	107,561	124,437	124,437	-
Police pension	673,200	680,770	680,770	-
Fire pension	628,650	660,821	660,821	-
Total property taxes	<u>2,737,521</u>	<u>2,809,235</u>	<u>2,809,235</u>	<u>-</u>
Sales tax	<u>4,027,246</u>	<u>4,055,247</u>	<u>4,147,638</u>	<u>92,391</u>
Intergovernmental revenue:				
State income tax	1,442,945	1,672,339	1,572,148	(100,191)
State replacement tax	301,553	369,993	266,684	(103,309)
Township replacement tax	17,500	17,500	21,270	3,770
Federal forfeiture revenue	-	-	1,250	1,250
State forfeiture revenue	-	31,299	31,299	-
Blackhawk Area Task Force Grant	69,579	55,663	56,087	424
Tobacco Grant	2,090	2,090	-	(2,090)
Bulletproof Vest Grant	-	207	414	207
Fire protection revenue	<u>297,555</u>	<u>297,555</u>	<u>276,629</u>	<u>(20,926)</u>
Total intergovernmental revenue	<u>2,131,222</u>	<u>2,446,646</u>	<u>2,225,781</u>	<u>(220,865)</u>
Licenses and permits:				
Franchise licenses	529,078	533,513	533,204	(309)
Liquor licenses	57,950	57,950	63,094	5,144
Building permits	39,333	33,899	27,672	(6,227)
Other	<u>48,192</u>	<u>48,297</u>	<u>52,548</u>	<u>4,251</u>
Total licenses and permits	<u>674,553</u>	<u>673,659</u>	<u>676,518</u>	<u>2,859</u>
Fines and penalties	<u>194,113</u>	<u>212,425</u>	<u>204,464</u>	<u>(7,961)</u>
Charges for services	<u>65,794</u>	<u>65,935</u>	<u>68,461</u>	<u>2,526</u>
Investment income:				
Interest income	35,845	30,319	36,892	6,573
Net change in fair market value	<u>-</u>	<u>-</u>	<u>4,600</u>	<u>4,600</u>
Total investment income	<u>35,845</u>	<u>30,319</u>	<u>41,492</u>	<u>11,173</u>
Donations	<u>61,410</u>	<u>52,602</u>	<u>54,352</u>	<u>1,750</u>
Other	<u>386,603</u>	<u>269,196</u>	<u>263,337</u>	<u>(5,859)</u>
Total revenues	<u>\$ 10,314,307</u>	<u>\$ 10,615,264</u>	<u>10,491,278</u>	<u>\$ (123,986)</u>

(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2016

	<u>Appropriation</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
EXPENDITURES				
General government:				
Office of the Mayor and City Council	\$ 34,765	\$ 34,765	\$ 31,874	\$ 2,891
Office of City Clerk	123,780	124,258	112,237	12,021
Policy and Administration	<u>302,449</u>	<u>261,748</u>	<u>259,358</u>	<u>2,390</u>
Total general government	<u>460,994</u>	<u>420,771</u>	<u>403,469</u>	<u>17,302</u>
Public safety:				
Police Department				
Police Services Division	1,515,037	1,640,042	1,599,785	40,257
Administrative Services Division	344,374	338,498	324,740	13,758
Investigative Division	321,207	309,637	306,598	3,039
Support Services Division	645,890	607,151	589,549	17,602
Blackhawk Area Task Force Grant	69,579	55,663	56,087	(424)
Fire Department				
Fire Services Division	1,346,280	1,371,011	1,328,273	42,738
Administrative Services Division	159,345	159,385	160,438	(1,053)
Fire Prevention and Training Division	<u>48,602</u>	<u>48,623</u>	<u>45,345</u>	<u>3,278</u>
Total public safety	<u>4,450,314</u>	<u>4,530,010</u>	<u>4,410,815</u>	<u>119,195</u>
Public works and transportation:				
Administrative Division	109,534	99,986	103,663	(3,677)
Street Division	926,285	909,463	784,845	124,618
Traffic Division	67,560	63,346	45,703	17,643
City Shop	49,285	46,787	45,684	1,103
City Parks	<u>86,150</u>	<u>94,673</u>	<u>82,648</u>	<u>12,025</u>
Total public works and transportation	<u>1,238,814</u>	<u>1,214,255</u>	<u>1,062,543</u>	<u>151,712</u>
Community development:				
Office of Community Development	<u>309,524</u>	<u>305,085</u>	<u>303,399</u>	<u>1,686</u>
Other				
Contribution to police pension plan	673,200	680,770	680,770	-
Contribution to fire pension plan	628,650	660,821	660,821	-
Sterling Planning Commission	49,110	47,344	48,106	(762)
Police and Fire Commission	16,575	18,139	15,047	3,092
Non-departmental	<u>2,292,912</u>	<u>2,235,629</u>	<u>2,175,664</u>	<u>59,965</u>
Total other	<u>3,660,447</u>	<u>3,642,703</u>	<u>3,580,408</u>	<u>62,295</u>
Capital outlay	<u>97,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 10,217,093</u>	<u>\$ 10,112,824</u>	<u>9,760,634</u>	<u>\$ 352,190</u>
Excess of revenues over expenditures			<u>730,644</u>	

(continued)

CITY OF STERLING, ILLINOIS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended April 30, 2016

	<u>Appropriation</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		favorable
OTHER FINANCING SOURCES (USES)				(unfavorable)
Sale of property	\$ 3,500	\$ 11,229	\$ 15,823	\$ 4,594
Operating transfers in	30,000	30,000	30,000	-
Operating transfers out	<u>(466,000)</u>	<u>(466,000)</u>	<u>(466,650)</u>	<u>(650)</u>
	<u>\$ (432,500)</u>	<u>\$ (424,771)</u>	<u>(420,827)</u>	<u>\$ 3,944</u>
Net change in fund balance			309,817	
FUND BALANCE, BEGINNING OF YEAR,			<u>5,326,024</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,635,841</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>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Sales	\$ 1,217,556	\$ 1,175,919	\$ 1,219,542	\$ 43,623
Charges for service	17,187	19,040	25,150	6,110
Interest	22,291	22,291	23,900	1,609
Net change in fair value of investments	-	-	(4,416)	(4,416)
Donations	-	-	29,340	29,340
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 1,257,034</u>	<u>\$ 1,217,250</u>	<u>1,293,516</u>	<u>\$ 76,266</u>
EXPENDITURES				
General government				
Bank expense	\$ 241	\$ 241	\$ 223	\$ 18
Public works and transportation				
Streets	266,678	266,678	251,365	15,313
Light poles for Coliseum parking lot	-	-	29,340	(29,340)
Sidewalks/curb and gutter	85,000	-	4,593	(4,593)
Community development				
Housing projects	-	10,000	7,250	2,750
Capital outlay				
Fire Department 2009 Chevy Tahoe (car #2)	18,000	17,495	17,495	-
8th & 9th Ave sanitary sewer study	-	-	10,075	(10,075)
6th Ave - E 2nd & 3rd St/8th Ave - E 2nd St	181,000	181,000	180,282	718
ADA compliance project	-	-	45,874	(45,874)
Police Livescan software	-	-	24,260	(24,260)
Public Works sprinkler	-	4,183	14,451	(10,268)
Public Works henke plow	-	15,100	15,100	-
Public Works new dump truck/plow/body/tarp system	115,000	-	-	-
Public Works new plow endloader	16,000	-	-	-
Wallace St reconstruction	81,000	81,000	80,491	509
West LeFevre Rd reconstruction	145,000	145,000	144,799	201
Ave L reconstruction	398,000	398,000	397,001	999
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 1,305,919</u>	<u>\$ 1,118,697</u>	<u>1,222,599</u>	<u>\$ (103,902)</u>
Excess of revenues over expenditures			<u>70,917</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 166,000	\$ 166,000	568,500	\$ (402,500)
Advance for theater renovation	(100,000)	(40,000)	(39,960)	40
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 66,000</u>	<u>\$ 126,000</u>	<u>528,540</u>	<u>\$ (402,460)</u>
Net change in fund balance			599,457	
FUND BALANCE, BEGINNING OF YEAR			<u>2,061,791</u>	
FUND BALANCE, END OF YEAR			<u>\$ 2,661,248</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, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Other	\$ 3,398,788	\$ 3,398,788	\$ 3,398,768	\$ (20)
Total revenues	<u>\$ 3,398,788</u>	<u>\$ 3,398,788</u>	<u>3,398,768</u>	<u>\$ (20)</u>
EXPENDITURES				
Other				
Bond expense	\$ 338	\$ 338	\$ 318	\$ 20
Debt service				
Principal	2,630,000	2,630,000	2,630,000	-
Interest	<u>768,450</u>	<u>768,450</u>	<u>768,450</u>	<u>-</u>
Total expenditures	<u>\$ 3,398,788</u>	<u>\$ 3,398,788</u>	<u>3,398,768</u>	<u>\$ 20</u>
Excess of revenues over expenditures			<u>-</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			-	
FUND BALANCE, BEGINNING OF YEAR			<u>44</u>	
FUND BALANCE, END OF YEAR			<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>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 316,536	\$ 313,471	\$ 313,471	\$ -
Sales	120,000	120,000	120,000	-
Interest	<u>-</u>	<u>300</u>	<u>291</u>	<u>(9)</u>
Total revenues	<u>\$ 436,536</u>	<u>\$ 433,771</u>	<u>433,762</u>	<u>\$ (9)</u>
EXPENDITURES				
Community development				
Other professional service	\$ -	\$ -	17,585	\$ (17,585)
Distribution to developer	-	55,928	55,928	-
Miscellaneous	739	698	690	8
Debt service				
Principal	25,000	25,000	25,000	-
Capital outlay	<u>175,000</u>	<u>50,000</u>	<u>53,937</u>	<u>(3,937)</u>
Total expenditures	<u>\$ 200,739</u>	<u>\$ 131,626</u>	<u>153,140</u>	<u>\$ (21,514)</u>
Excess of revenues over expenditures			<u>280,622</u>	
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			280,622	
FUND BALANCE, BEGINNING OF YEAR			<u>138,189</u>	
FUND BALANCE, END OF YEAR			<u>\$ 418,811</u>	

CITY OF STERLING, ILLINOIS
CBD EAST TAX INCREMENT ALLOCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
Year Ended April 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
EXPENDITURES				
Community development				
Other professional service	\$ -	\$ 40,000	17,585	\$ 22,415
Legal service	<u>-</u>	<u>-</u>	<u>9,301</u>	<u>(9,301)</u>
Total expenditures	<u>\$ -</u>	<u>\$ 40,000</u>	<u>26,886</u>	<u>\$ 13,114</u>
Deficiency of revenues over expenditures			<u>(26,886)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			(26,886)	
FUND BALANCE, BEGINNING OF YEAR			<u>-</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (26,886)</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, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 162,016	\$ 163,703	\$ 163,703	\$ -
Interest	-	22	22	-
Other	<u>466,088</u>	<u>466,088</u>	<u>466,088</u>	<u>-</u>
Total revenues	<u>\$ 628,104</u>	<u>\$ 629,813</u>	<u>629,813</u>	<u>\$ -</u>
EXPENDITURES				
Community development				
Legal service	\$ 500	\$ 500	-	\$ 500
Reimbursement of developer TIF increment	161,016	162,703	162,703	-
Miscellaneous	1,551	1,486	1,486	-
Debt service				
Principal	210,000	210,000	210,000	-
Interest	<u>256,088</u>	<u>256,088</u>	<u>256,088</u>	<u>-</u>
Total expenditures	<u>\$ 629,155</u>	<u>\$ 630,777</u>	<u>630,277</u>	<u>\$ 500</u>
Deficiency of revenues over expenditures			<u>(464)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			(464)	
FUND DEFICIT, BEGINNING OF YEAR			<u>(90,304)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (90,768)</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, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>(unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 529,582	\$ 564,940	\$ 564,940	\$ -
Interest	150	100	107	7
Other	<u>6,500</u>	<u>6,500</u>	<u>8,251</u>	<u>1,751</u>
Total revenues	<u>\$ 536,232</u>	<u>\$ 571,540</u>	<u>573,298</u>	<u>\$ 1,758</u>
EXPENDITURES				
Community development				
Other professional service	\$ 3,600	\$ 5,000	5,541	\$ (541)
Legal service	100,000	400,000	545,548	(145,548)
Bank expense	84,413	84,413	56,611	27,802
Distribution to developer	-	402,090	402,090	
Miscellaneous	724	683	683	-
Debt service				
Principal	255,000	255,000	255,000	-
Interest	<u>20,000</u>	<u>10,000</u>	<u>8,528</u>	<u>1,472</u>
Total expenditures	<u>\$ 463,737</u>	<u>\$ 1,157,186</u>	<u>1,274,001</u>	<u>\$ (116,815)</u>
Deficiency of revenues over expenditures			<u>(700,703)</u>	
OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net change in fund balance			(700,703)	
FUND DEFICIT, BEGINNING OF YEAR			<u>(1,539,526)</u>	
FUND DEFICIT, END OF YEAR			<u>\$ (2,240,229)</u>	

CITY OF STERLING, ILLINOIS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
April 30, 2016

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:

	Actual	Budget
Capital Fund	\$ 1,222,599	\$ 1,118,697
CBD Tax Increment Allocation Fund	153,140	131,626
Rock River Tax Increment Allocation Fund	1,274,001	1,157,186

Note 3. Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2015 Contribution Rate

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reports.

Methods and Assumptions Used to Determine 2015 Contribution Rates:

Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	Non-Taxing bodies: 10-year rolling period. Taxing bodies (Regular, SLEP and ECO groups): 28-year closed period until remaining period reaches 15 years (then 15-year rolling period). Early Retirement Incentive Plan liabilities: a period up to 10 years selected by the Employer upon adoption of ERI. SLEP supplemental liabilities attributable to Public Act 94-712 were financed over 23 years for most employers (two employers were financed over 32 years).

SUPPLEMENTARY INFORMATION

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING BALANCE SHEET
April 30, 2016

Special Revenue

	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund
ASSETS								
Cash	\$ -	\$ 322,217	\$ 1,767	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	97,445	480,303	50	526,504	-	431,353	-	6,940
Receivables (net, where applicable of allowances for uncollectibles)								
Taxes	-	404,331	56,517	-	77,420	223,125	209,189	10,374
Intergovernmental	34,979	13,286	1,505	-	2,289	-	632	534
Accounts	-	-	-	375	-	-	-	-
Notes	-	-	-	30,116	-	-	-	-
Interest	-	4,353	-	21,828	-	3,297	-	5
Due from other funds	-	122,069	141,491	148,158	-	56,766	149,429	90,247
TOTAL ASSETS	<u>\$ 132,424</u>	<u>\$ 1,346,559</u>	<u>\$ 201,330</u>	<u>\$ 726,981</u>	<u>\$ 79,709</u>	<u>\$ 714,541</u>	<u>\$ 359,250</u>	<u>\$ 108,100</u>
LIABILITIES								
Accounts payable	\$ 2,250	\$ 14,405	\$ 3,081	\$ 1,367	\$ 2,481	\$ 27,049	\$ 486	\$ 411
Accrued payroll	-	2,355	6,150	-	-	-	-	-
Deposits	-	-	-	10,077	-	-	-	-
Due to other funds	-	-	-	-	713,242	-	-	-
Deferred inflows	-	407,674	56,517	-	77,420	223,125	209,189	10,374
Total liabilities	<u>2,250</u>	<u>424,434</u>	<u>65,748</u>	<u>11,444</u>	<u>793,143</u>	<u>250,174</u>	<u>209,675</u>	<u>10,785</u>
FUND BALANCE								
Nonspendable	-	-	-	30,116	-	-	-	-
Restricted	130,174	922,125	135,582	685,421	-	464,367	149,575	97,315
Unassigned	-	-	-	-	(713,434)	-	-	-
Total fund balance	<u>130,174</u>	<u>922,125</u>	<u>135,582</u>	<u>715,537</u>	<u>(713,434)</u>	<u>464,367</u>	<u>149,575</u>	<u>97,315</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 132,424</u>	<u>\$ 1,346,559</u>	<u>\$ 201,330</u>	<u>\$ 726,981</u>	<u>\$ 79,709</u>	<u>\$ 714,541</u>	<u>\$ 359,250</u>	<u>\$ 108,100</u>

Special Revenue					Debt Service	Capital Project			Total
AG NFS Grant Fund	IGIG Grant Fund	Mud to Parks Grant Fund	Blight Reduction Program Grant Fund	NSP2 Grant Fund	Special Service Area Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 323,984
-	-	-	-	-	-	-	-	-	1,542,595
-	-	-	-	-	-	-	-	-	980,956
-	628,738	498,332	37,947	-	-	-	-	-	1,218,242
-	-	-	-	-	-	-	-	-	375
-	-	-	-	-	-	-	-	-	30,116
-	-	-	-	-	-	-	-	-	29,483
-	-	-	-	-	33,078	-	-	-	741,238
<u>\$ -</u>	<u>\$ 628,738</u>	<u>\$ 498,332</u>	<u>\$ 37,947</u>	<u>\$ -</u>	<u>\$ 33,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,866,989</u>
\$ -	\$ 74,433	\$ 255,761	\$ 19,725	\$ -	\$ -	\$ -	\$ 7,621	\$ -	409,070
-	-	-	-	-	-	-	-	-	8,505
-	-	-	-	-	-	-	7,500	-	17,577
-	587,603	242,571	18,222	-	-	-	93,014	-	1,654,652
-	560,249	487,461	-	-	-	-	-	-	2,032,009
-	1,222,285	985,793	37,947	-	-	-	108,135	-	4,121,813
-	-	-	-	-	-	-	-	-	30,116
-	-	-	-	-	-	-	-	-	2,584,559
-	(593,547)	(487,461)	-	-	33,078	-	(108,135)	-	(1,869,499)
-	(593,547)	(487,461)	-	-	33,078	-	(108,135)	-	745,176
<u>\$ -</u>	<u>\$ 628,738</u>	<u>\$ 498,332</u>	<u>\$ 37,947</u>	<u>\$ -</u>	<u>\$ 33,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,866,989</u>

CITY OF STERLING, ILLINOIS
NONMAJOR FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended April 30, 2016

Special Revenue

	Motor Fuel Tax Fund	Library Fund	Band Fund	Industrial Development Fund	Municipal Coliseum Fund	IMRF Fund	Social Security Fund	Civil Defense Fund
REVENUES								
Taxes	\$ -	\$ 402,698	\$ 56,703	\$ -	\$ 78,537	\$ 224,464	\$ 208,283	\$ 10,367
Intergovernmental	393,147	89,169	7,924	-	12,050	5,050	3,329	2,813
Charges for services	-	19,439	2,776	113,286	20,731	-	-	-
Interest	315	15,647	66	2,157	-	14,703	85	193
Net change in fair value of investments	-	134	-	-	-	(4,150)	-	(53)
Donations	-	32,971	25,746	-	-	-	-	-
Other	-	28,746	15	35	-	62,550	45,000	-
Total revenues	<u>393,462</u>	<u>588,804</u>	<u>93,230</u>	<u>115,478</u>	<u>111,318</u>	<u>302,617</u>	<u>256,697</u>	<u>13,320</u>
EXPENDITURES								
Current								
General government	-	-	-	-	154,550	267,344	242,861	-
Public safety	-	-	-	-	-	-	-	7,578
Public works and transportation	219,419	-	-	-	-	-	-	-
Community development	-	-	-	101,839	-	-	-	-
Culture and recreation	-	592,687	98,098	-	-	-	-	-
Debt service								
Principal	339,349	-	-	-	100,000	-	-	-
Interest	11,812	428	-	-	154,442	-	-	-
Capital outlay	-	6,807	-	-	-	-	-	-
Total expenditures	<u>570,580</u>	<u>599,922</u>	<u>98,098</u>	<u>101,839</u>	<u>408,992</u>	<u>267,344</u>	<u>242,861</u>	<u>7,578</u>
Excess (deficiency) of revenues over expenditures	<u>(177,118)</u>	<u>(11,118)</u>	<u>(4,868)</u>	<u>13,639</u>	<u>(297,674)</u>	<u>35,273</u>	<u>13,836</u>	<u>5,742</u>
OTHER FINANCING SOURCES (USES)								
Sale of property	-	1,513	-	18,916	-	-	-	-
Operating transfer in	-	-	-	-	300,000	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>1,513</u>	<u>-</u>	<u>18,916</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>(177,118)</u>	<u>(9,605)</u>	<u>(4,868)</u>	<u>32,555</u>	<u>2,326</u>	<u>35,273</u>	<u>13,836</u>	<u>5,742</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<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>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 130,174</u>	<u>\$ 922,125</u>	<u>\$ 135,582</u>	<u>\$ 715,537</u>	<u>\$ (713,434)</u>	<u>\$ 464,367</u>	<u>\$ 149,575</u>	<u>\$ 97,315</u>

Special Revenue					Debt Service	Capital Project				Total
AG NFS Grant Fund	IGIG Grant Fund	Mud to Parks Grant Fund	Blight Reduction Program Grant Fund	NSP2 Grant Fund	Special Service Area Fund	McFall Landfill Project Fund	NWSW Redevelopment Fund	Infrastructure Fund		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,093	\$ -	\$ -	\$ -	\$ 987,145	
232,706	-	-	105,896	181,970	-	-	-	-	1,034,054	
-	-	-	-	-	-	-	96,450	-	252,682	
-	-	-	-	11	14	-	-	-	33,191	
-	-	-	-	-	-	-	-	-	(4,069)	
-	-	-	-	-	-	-	50,000	-	108,717	
-	-	-	-	-	2,025	-	-	-	138,371	
<u>232,706</u>	<u>-</u>	<u>-</u>	<u>105,896</u>	<u>181,981</u>	<u>8,132</u>	<u>-</u>	<u>146,450</u>	<u>-</u>	<u>2,550,091</u>	
-	-	-	-	-	-	-	-	-	664,755	
-	-	-	-	-	-	-	-	-	7,578	
-	-	-	-	-	-	650	-	-	220,069	
22,013	560,249	487,461	105,896	103,605	-	-	80,840	-	1,461,903	
-	-	-	-	-	-	-	-	-	690,785	
-	-	-	-	-	-	-	-	-	439,349	
-	-	-	-	-	6,094	-	-	-	172,776	
<u>210,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,779</u>	
<u>232,706</u>	<u>560,249</u>	<u>487,461</u>	<u>105,896</u>	<u>261,884</u>	<u>6,094</u>	<u>650</u>	<u>80,840</u>	<u>-</u>	<u>4,032,994</u>	
-	(560,249)	(487,461)	-	(79,903)	2,038	(650)	65,610	-	(1,482,903)	
-	-	-	-	79,903	-	-	-	-	100,332	
-	-	-	-	-	-	650	-	-	300,650	
-	-	-	-	-	-	-	-	(402,500)	(402,500)	
-	-	-	-	79,903	-	650	-	(402,500)	(1,518)	
-	(560,249)	(487,461)	-	-	2,038	-	65,610	(402,500)	(1,484,421)	
-	(33,298)	-	-	-	31,040	-	(173,745)	402,500	2,229,597	
<u>\$ -</u>	<u>\$ (593,547)</u>	<u>\$ (487,461)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,078</u>	<u>\$ -</u>	<u>\$ (108,135)</u>	<u>\$ -</u>	<u>\$ 745,176</u>	

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS
April 30, 2016

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Totals
ASSETS			
Cash	\$ 14,375	\$ -	\$ 14,375
Accrued interest receivable	25,704	27,542	53,246
Investments, at fair value	12,474,013	11,422,004	23,896,017
Due from other funds	4,846	-	4,846
TOTAL ASSETS	<u>12,518,938</u>	<u>11,449,546</u>	<u>23,968,484</u>
LIABILITIES			
Due to other funds	-	4,846	4,846
NET POSITION	<u>\$ 12,518,938</u>	<u>\$ 11,444,700</u>	<u>\$ 23,963,638</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
Year Ended April 30, 2016

	Pension Trust Funds		
	Policemen's Pension Fund	Firemen's Pension Fund	Total
ADDITIONS			
Contributions			
Employer	\$ 703,470	\$ 689,721	\$ 1,393,191
Plan members	173,505	104,793	278,298
Total contributions	<u>876,975</u>	<u>794,514</u>	<u>1,671,489</u>
Investment income			
Interest earned	281,328	326,572	607,900
Net change in fair value	(497,304)	(425,412)	(922,716)
Total investment income	<u>(215,976)</u>	<u>(98,840)</u>	<u>(314,816)</u>
Less: investment expense	(15,834)	(36,726)	(52,560)
Net investment income	<u>(231,810)</u>	<u>(135,566)</u>	<u>(367,376)</u>
Total additions	<u>645,165</u>	<u>658,948</u>	<u>1,304,113</u>
DEDUCTIONS			
Administrative	31,281	19,207	50,488
Benefits	1,105,590	1,360,388	2,465,978
Total deductions	<u>1,136,871</u>	<u>1,379,595</u>	<u>2,516,466</u>
CHANGE IN NET POSITION	<u>(491,706)</u>	<u>(720,647)</u>	<u>(1,212,353)</u>
NET POSITION, BEGINNING OF YEAR	<u>13,010,644</u>	<u>12,165,347</u>	<u>25,175,991</u>
NET POSITION, END OF YEAR	<u>\$ 12,518,938</u>	<u>\$ 11,444,700</u>	<u>\$ 23,963,638</u>

CITY OF STERLING, ILLINOIS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
April 30, 2016

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 37,453,979	\$ 31,183	\$ 37,485,162
Patient accounts receivable, less allowance for uncollectible accounts of \$11,704,120	30,245,032	-	30,245,032
Other receivables	1,358,899	-	1,358,899
Estimated third-party payor settlements	1,185,949	-	1,185,949
Due from unconsolidated investees	206,466	-	206,466
Inventories	3,579,134	-	3,579,134
Accrued interest receivable	190,068	-	190,068
Prepaid expenses	<u>3,121,247</u>	<u>-</u>	<u>3,121,247</u>
Total current assets	<u>77,340,774</u>	<u>31,183</u>	<u>77,371,957</u>
Other assets			
Investments	49,915,090	-	49,915,090
Assets limited as to use	5,435,294	-	5,435,294
Capital assets, net	74,456,509	-	74,456,509
Other assets	1,179,564	-	1,179,564
Net equity in unconsolidated investees	<u>5,330,530</u>	<u>-</u>	<u>5,330,530</u>
Total other assets	<u>136,316,987</u>	<u>-</u>	<u>136,316,987</u>
Deferred outflows of resources			
Pension related deferred outflows	<u>11,286,003</u>	<u>-</u>	<u>11,286,003</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 224,943,764</u>	<u>\$ 31,183</u>	<u>\$ 224,974,947</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 3,674,518	\$ -	\$ 3,674,518
Accrued salaries, wages, and benefits	11,325,831	-	11,325,831
Accrued malpractice	1,067,353	-	1,067,353
Current maturities of long-term debt	1,542,749	-	1,542,749
Current maturities of bonds payable	2,695,000	-	2,695,000
Estimated third-party payor settlements	9,322,758	-	9,322,758
Other current liabilities	<u>4,639,493</u>	<u>-</u>	<u>4,639,493</u>
Total current liabilities	<u>34,267,702</u>	<u>-</u>	<u>34,267,702</u>
Long-term liabilities			
Notes payable, less current maturities	-	-	-
Bonds payable, less current maturities and net of unamortized premium of \$1,179,830	19,279,830	-	19,279,830
Net pension liability	<u>62,705,075</u>	<u>-</u>	<u>62,705,075</u>
Total noncurrent liabilities	<u>81,984,905</u>	<u>-</u>	<u>81,984,905</u>
Total liabilities	<u>116,252,607</u>	<u>-</u>	<u>116,252,607</u>
Deferred inflows of resources			
Pension related deferred inflows	<u>711,215</u>	<u>-</u>	<u>711,215</u>
NET POSITION			
Net investment in capital assets	50,938,930	-	50,938,930
Restricted for:			
Health development	5,435,294	-	5,435,294
Unrestricted	<u>51,605,718</u>	<u>31,183</u>	<u>51,636,901</u>
Total net position	<u>107,979,942</u>	<u>31,183</u>	<u>108,011,125</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 224,943,764</u>	<u>\$ 31,183</u>	<u>\$ 224,974,947</u>

CITY OF STERLING, ILLINOIS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - COMPONENT UNITS
Year Ended April 30, 2016

	CGH Medical Center	Foreign Fire Insurance Board	Total Component Units
OPERATING REVENUE			
Net patient service revenue	\$ 219,346,382	\$ -	\$ 219,346,382
Other revenue	4,334,367	21,792	4,356,159
Total operating revenue	<u>223,680,749</u>	<u>21,792</u>	<u>223,702,541</u>
OPERATING EXPENSES			
Salaries and wages	89,993,210	-	89,993,210
Employee benefits	24,884,742	-	24,884,742
Pension expense	7,166,235	-	7,166,235
Medical fees	10,173,570	-	10,173,570
Patient service supplies	32,739,132	-	32,739,132
Utilities	2,080,568	-	2,080,568
Purchased services	5,557,554	-	5,557,554
Repairs and replacements	7,204,307	8,842	7,213,149
Depreciation and amortization	12,167,729	-	12,167,729
Insurance	2,081,752	-	2,081,752
Rental expense	976,278	-	976,278
Other	7,418,933	6,538	7,425,471
Total operating expenses	<u>202,444,010</u>	<u>15,380</u>	<u>202,459,390</u>
Income from operations	<u>21,236,739</u>	<u>6,412</u>	<u>21,243,151</u>
NONOPERATING REVENUES (EXPENSES)			
Contributions	917,626	-	917,626
Interest income	681,448	41	681,489
Interest expense	(669,407)	-	(669,407)
Loss on asset disposal	(55,505)	-	(55,505)
Increase in net equity of unconsolidated investees	66,501	-	66,501
Total nonoperating revenues (expenses)	<u>940,663</u>	<u>41</u>	<u>940,704</u>
Change in net position	22,177,402	6,453	22,183,855
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>85,802,540</u>	<u>24,730</u>	<u>85,827,270</u>
NET POSITION, END OF YEAR	<u>\$ 107,979,942</u>	<u>\$ 31,183</u>	<u>\$ 108,011,125</u>



INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined City of Sterling, Illinois' (the "City") compliance with the provisions of subsection (q) of Section 11-74.4-3 of the Illinois Tax Increment Redevelopment Allocation Act (Illinois Public Act 85-1142) during the year ended April 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, City of Sterling, Illinois, complied, in all material respects, with the aforementioned requirements for the year ended April 30, 2016.

This report is intended solely for the information and use of management, the City Council, others within the City, the Illinois State Comptroller's Office and the joint review boards and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Rockford, Illinois
September 29, 2016

