

CITY OF TUSCOLA
Tuscola, Illinois

Annual Financial Report

For the Year Ended April 30, 2012

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October 1, 2012

Honorable Mayor and
City Council
City of Tuscola
Tuscola, Illinois

Independent Auditor's Report

We have audited the accompanying financial statements of the City of Tuscola as of and for the year ended April 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Tuscola as of April 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in **the** United States of America.

In accordance with *Government Auditing Standards*, We have also issued our report dated October 1, 2012 on our consideration of the City of Tuscola's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of

funding progress - IMRF on pages 3 through 12 and 47 and 57 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tuscola's financial statements as a whole. The accompanying schedule of expenditures of federal awards and the supplementary information on pages 64 and 65 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards and the supplementary information on pages 64 and 65 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and Certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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BRAY, DRAKE, LILES & RICHARDSON LLP

Management's Discussion and Analysis

April 30, 2012

As management of the City of Tuscola, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Tuscola for the fiscal year ended April 30, 2012.

Financial Highlights

- The assets of the City of Tuscola exceeded its liabilities at the close of the most recent fiscal year by \$36,615,123 (*net assets*).
- The City's total net assets increased by \$2,023,944, or 5.84% in the last fiscal year
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,434,714. Of this amount, \$918,433 is not specifically assigned to a particular use so it is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,207,487, or 52.7% of total general fund expenditures.
- City of Tuscola's total debt increased by \$244,873 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Tuscola's basic financial statements. The City of Tuscola's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains 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 of Tuscola's finances, in a manner similar to a private-sector business.

- The *statement of net assets* presents information on all of the City of Tuscola's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Tuscola is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Tuscola include general government, public safety, public recreation, development, public library, tourism and roadways. Additionally this year, the general government activities include the economic development activities of the Tuscola Economic Development, Inc. (TEDI). TEDI is a legally separate not for profit (501 (c)6) entity, organized by local businesses for the furtherance of local business development activities. TEDI was considered a component unit to the city for the fiscal year ending April 30, 2012 due to its financial dependence on the City of Tuscola and because it's mission primarily supports the City's economic development goals. The business-type activities of the City of Tuscola include the City of Tuscola Water and Sewer services. The government-wide financial statements do not include funds classified as Fiduciary Funds (discussed further below), because the resources of those funds are not available to support the City's programs.

The government-wide financial statements can be found on pages 13-14 of this report.

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 of Tuscola, 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 of Tuscola 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 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 balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Tuscola maintains six 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, TIF Fund, Motor Fuel Tax Fund, Tourism Fund and Library Fund, all of which are considered to be major funds. The City also presents the financial statements of TEDI as a major fund.

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

The basic governmental fund financial statements can be found on pages 15-16 of this report.

Proprietary funds. The City of Tuscola maintains two proprietary funds (also called Enterprise Funds). Enterprise Funds are presented as *business-type activities* in the government-wide financial statements. The City of Tuscola uses one enterprise fund to account for its Water service activities and one enterprise fund to account for its Sewer service activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer services, which are considered to be major funds of the City of Tuscola.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside -5- the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Tuscola's own programs. The City of Tuscola maintains two fiduciary funds. The Garbage Fund is for the purpose of billing and collecting revenue for Veolia Environmental Services, the contracted garbage hauler in the City. And the Section 125 Fund is used to hold employee deposits and reimburse employees for approved medical and daycare expenses. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 20 of this report.

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. The notes to the financial statements can be found on pages 21-46 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This supplementary information includes information concerning the City of Tuscola's progress in funding its obligation to provide pension benefits to its employees, additional information about the operation of the water and sewer funds, legal debt margin calculations and assessed valuations, tax rates, taxes extended and collected information about the property tax funding system. Required supplementary information can be found on pages 46-57 of this report,

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Tuscola, assets exceeded liabilities by \$36,615,123 at the close of the most recent fiscal year.

The largest portion of the City of Tuscola's net assets (*77 percent*) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Tuscola uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Tuscola'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. The following table reflects the condensed Statement of Net Assets.

	Governmental Activities 2012	Governmental Activities 2011	Business-Type Activities 2012	Business-Type Activities 2011	Total 2012	Total 2011
Current and Other Assets	\$ 8,025,135	\$ 7,886,410	\$ 1,776,332	\$ 2,190,415	\$ 9,801,467	\$ 9,876,825
Capital Assets	21,135,657	19,964,645	11,201,167	9,765,802	32,336,824	29,730,447
Total Assets	\$ 29,160,792	\$ 27,651,055	\$ 12,977,499	\$ 11,956,217	\$ 42,138,291	\$ 39,607,272
Long-term Liabilities	\$ 462,000	\$ 645,000	\$ 3,894,172	\$ 3,960,000	\$ 4,366,172	\$ 4,605,000
Other Liabilities	556,061	175,756	610,936	31,132	1,166,996	206,888
Total Liabilities	\$ 1,018,061	\$ 820,756	\$ 4,505,107	\$ 3,991,132	\$ 5,523,168	\$ 4,811,888
Net Assets:						
Invested in Capital Assets	\$ 20,578,657	\$ 19,319,644	\$ 7,596,166	\$ 5,805,802	\$ 28,174,823	\$ 25,125,446
Restricted	1 910,806	2,120,638	973,809	1,416,965	2,884,615	3,537,603
Unrestricted	5,653,268	5,390,017	(97,683)	592,244	5,555,685	5,982,261
Total Net Assets	\$ 28,142,731	\$ 26,830,299	\$ 8,472,392	\$ 7,815,011	\$ 36,615,123	\$ 34,645,310

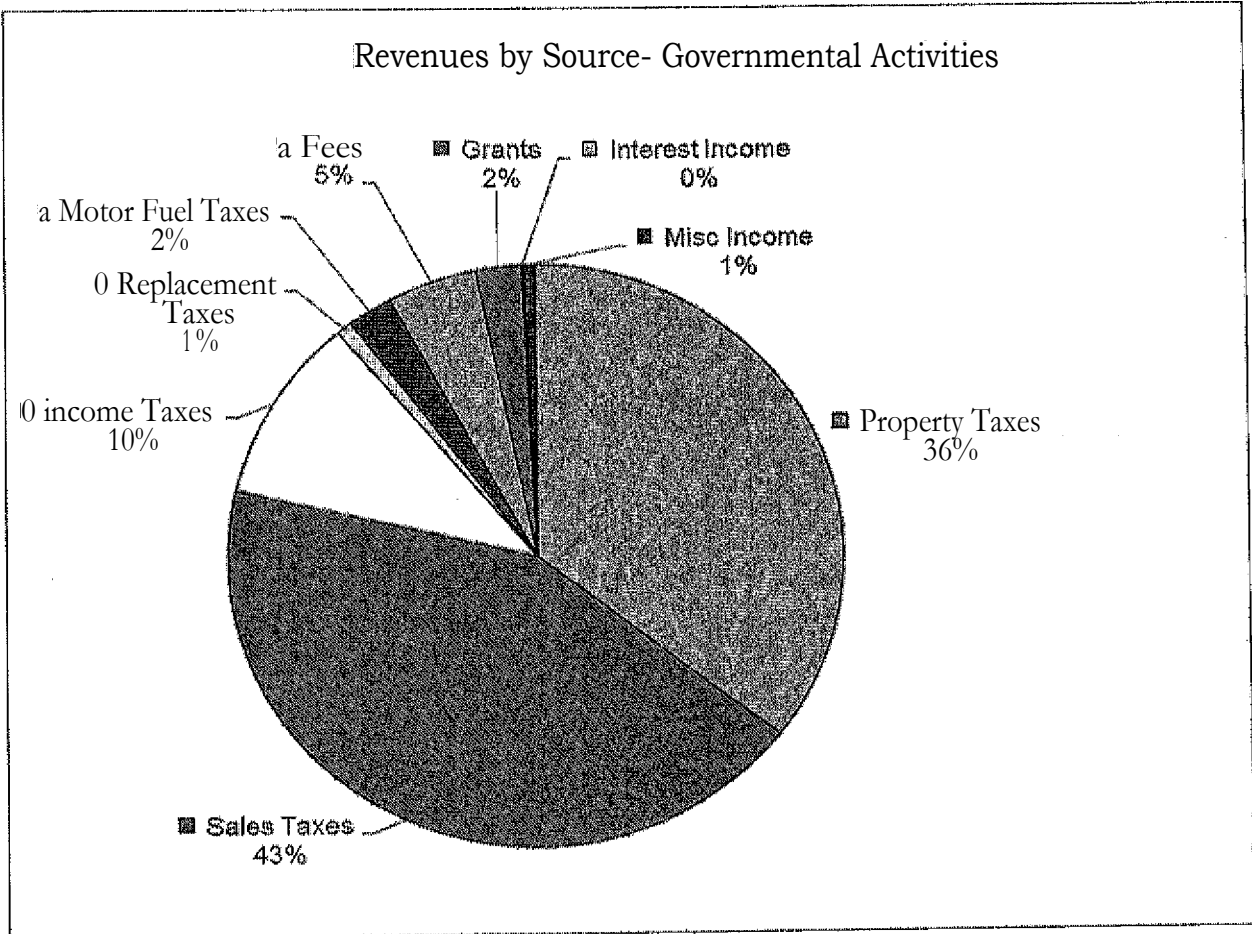
An additional portion of the City of Tuscola's net assets (\$2,884,615) represents resources that are subject to external restrictions on how they may be used. The remaining balance of Net Assets, *unrestricted net assets* (\$5,555,685) may be used to meet the government's ongoing obligations to citizens and creditors.

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

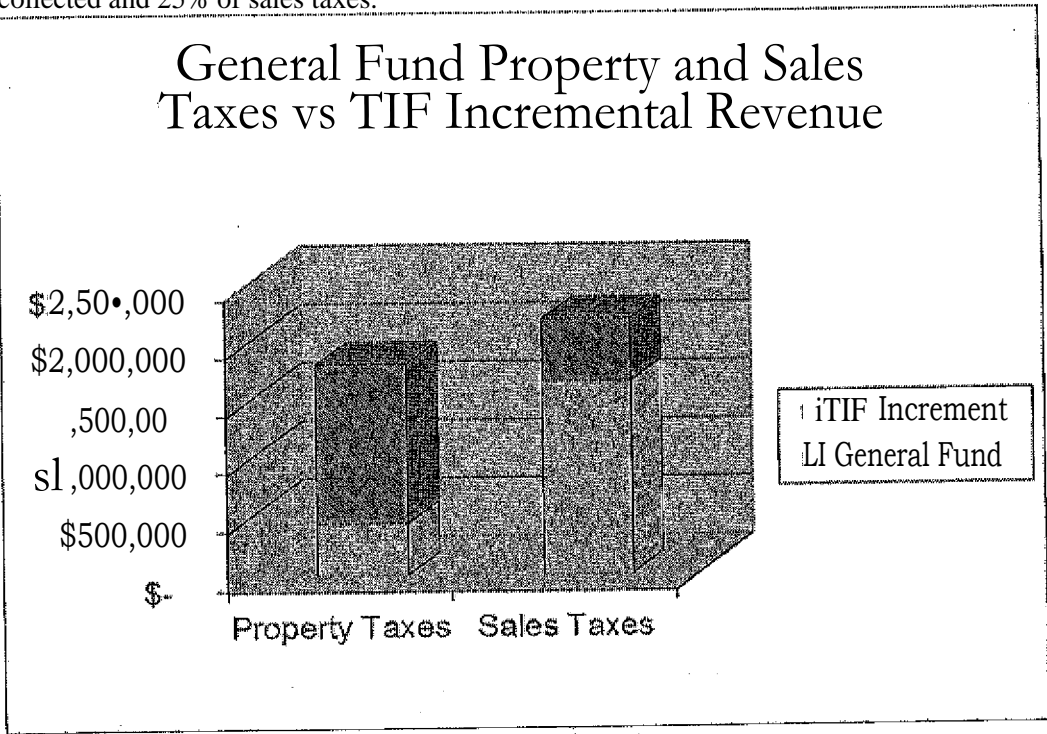
The following table summarizes the revenues and expenses of the City's activities:

	Governmental Activities 2012	Governmental Activities 2011	Business- Type Activities 2012	Business- Type Activities 2011	Total 2012	Total 2011
Revenues:						
Program Revenues						
Charges for Services	255,534	127,885	\$ 1,653,783	\$ 1,661,441	\$ 1,909,317	\$ 1,789,326
Grants & Contributions	130,413	15,335	548,159	29,086	678,602	44,421
General Revenues:						
Property Taxes	1,938,104	1,929,427	-	-	1,938,104	1,929,427
Sales Taxes	2,351,028	2,185,985	-	-	2,351,028	2,185,985
Income Taxes	560,197	478,113	-	-	560,197	478,113
Replacement Taxes	44,647	48,278	-	-	44,647	48,278
Motor Fuel Taxes	129,792	131,842	-	-	129,792	131,842
Investment Earnings	4,070	7,916	3,413	3,711	7,483	11,627
Miscellaneous	33,125	30,680	-	-	53,125	30,680
Total Revenues	\$ 5,446,910	\$ 4,955,461	\$ 2,205,385	\$ 1,694,238	\$ 7,652,295	\$ 6,649,699
Expenses:						
General Government	533,474	533,446			\$ 533,474	\$ 533,446
Public Safety	944,612	910,634			944,012	910,634
Public Works	290,054	679,234			290,054	679,234
Culture and Recreation	415,203	328,868			415,203	328,868
Development	1,880,603	1,644,349			1,880,603	1,644,349
Interest on Debt	16,401	26,654			16,401	26,654
Water Department			942,354	878,319	942,354	878,319
Sewer Department			605,650	663,210	605,650	663,210
Total Expenses	4,080,347	4,123,185	1,548,004	1,541,529	5,628,351	5,664,714
Change in Net Assets	1,366,563	832,276	657,381	152,709	2,023,944	984,985
Net Assets, Beginning	26,776,168	25,998,023	7,815,011	7,662,302	34,591,179	33,660,325
Net Assets, Ending	<u>\$ 28,142,731</u>	<u>\$ 26,830,299</u>	<u>\$ 8,472,392</u>	<u>\$ 7,815,011</u>	<u>\$ 36,615,123</u>	<u>\$ 34,645,310</u>

Revenues for the City are generated from a number of different sources and for the most part are dependent on different financial factors. The majority of revenue is derived from sales taxes and property taxes, as illustrated in the chart below. Property taxes are a stable source of revenues, not dependent on economic trends and fluctuations. Sales tax revenues, conversely, are heavily dependent on economic trends and the success of a smaller number of local businesses. Property taxes are derived solely from local property owners, while sales taxes are partly paid by out of town shoppers. Keeping sales tax revenues strong and the local economy growing is taking some of the financial burden of running the City's programs off of the local citizenry. Having a balance between those two revenues is essential to the stability of the operations of the City. The City also accounts for income tax collected by the State of Illinois and vouchered by the Illinois Department of Revenue that is being held by the Illinois State Treasurer until the funds are available to pay the vouchers. In FY 2011, that amount was \$92,594 and in FY 2012 the amount was \$183,092. The difference in these amounts due the City of Tuscola, along with the addition of TEDPs net assets of (\$32,344), account for the difference in net assets from FY 2011 to FY 2012 as shown on the above chart.

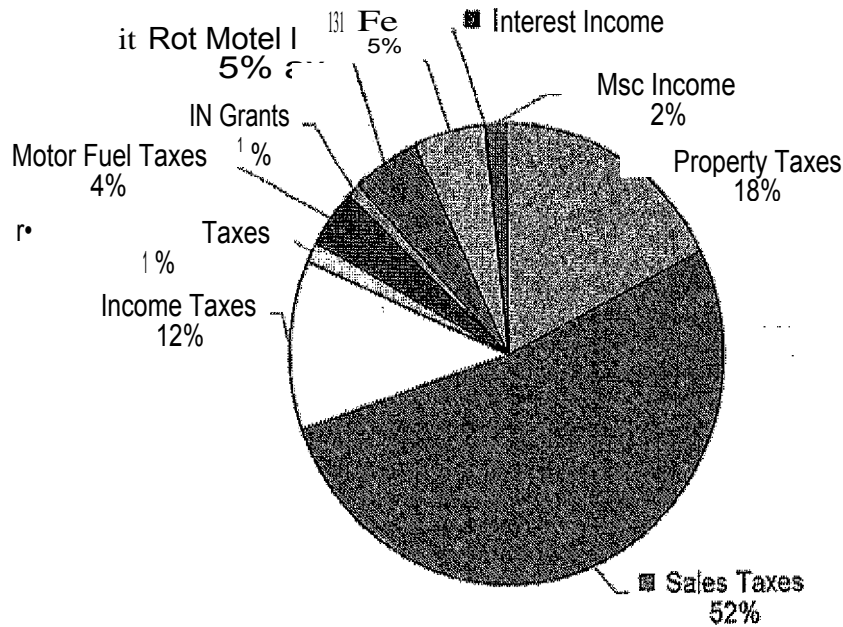


The City of Tuscola is unique in that it has a very successful Tax Increment Financing (TIF) District that provides revenues from property tax and sales tax increment to fund most of the City's economic development plans. While sales and property tax revenues are the main sources of overall revenue for the City's combined funds, the amounts of these types of revenues that are attributable to the TIF District are significant (48%). As shown in the chart below, TIF increment accounts for 76% of all property taxes collected and 25% of sales taxes.



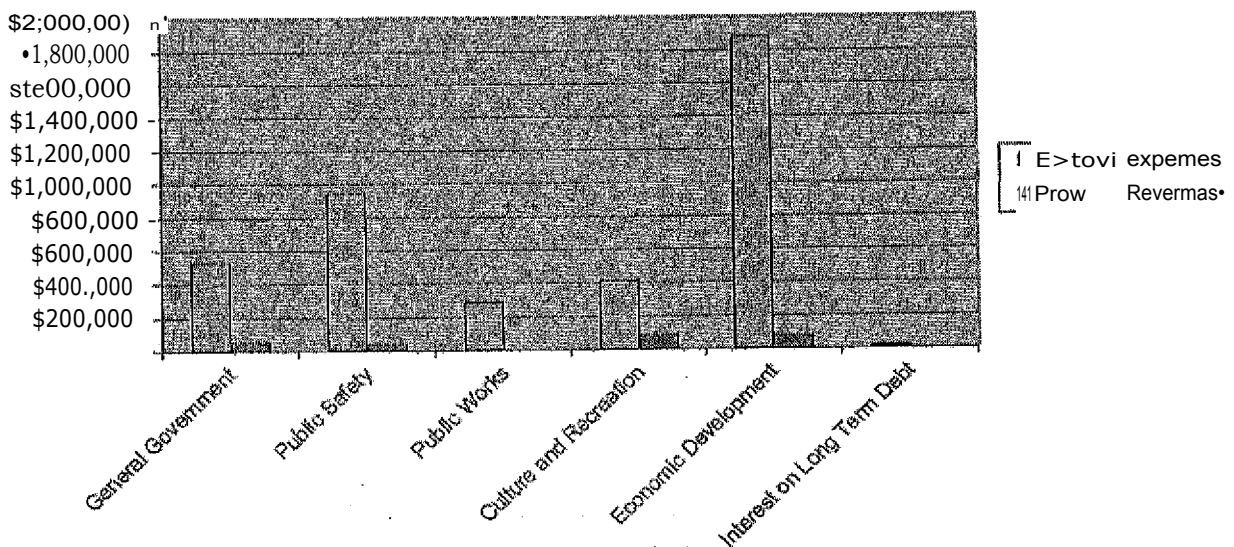
When the general government funds are analyzed independently of the Tax Increment Financing Fund, one gets a clearer picture of the priorities of the City's government. As shown in the chart below, the City government has made a priority of keeping property tax levies low to keep the burden off local residents. This is possible due to the high percentage (52% of sales taxes, said in table chart by out of town shoppers.

Revenues by Source- Governmental Activities without TIF and TEDI

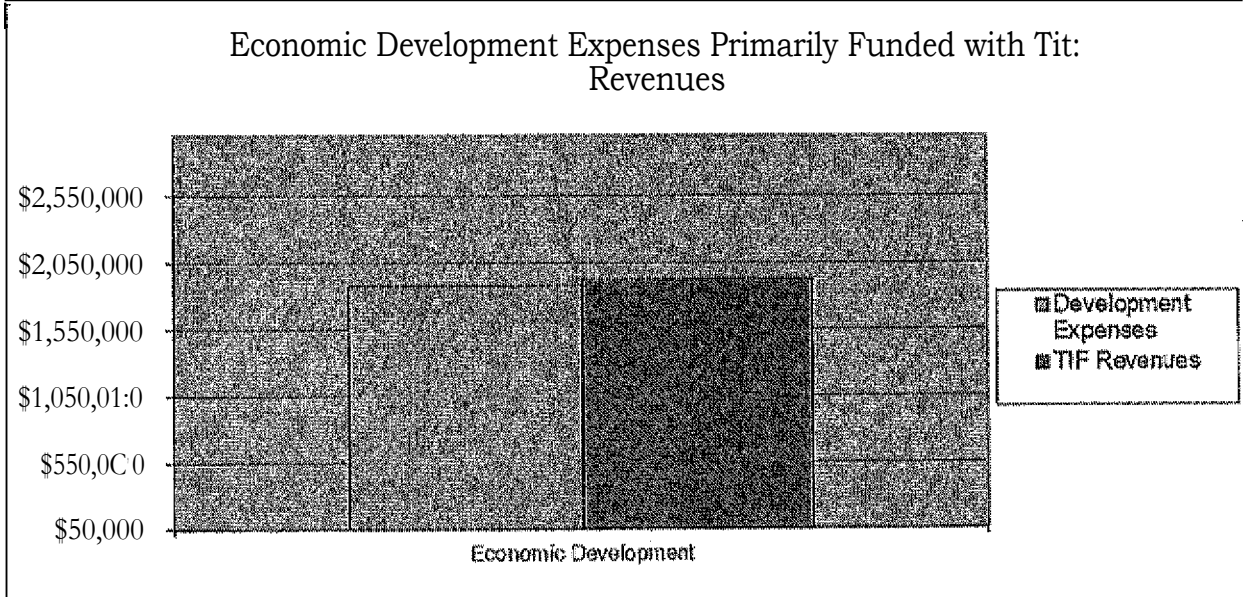


Economic Development expenses were the largest program expense with \$1,880,603 being spent toward development of the local economy. As explained later, that focus on economic development would not be possible without the City's Tax Increment Financing District Revenue. Other than development, the largest program expenses are for public safety at \$944,612, which is the highest priority for the City government with general revenues. Public works programs accounted for \$290,054 and Culture and recreation programs were \$415,203 for the fiscal year. Those programs are followed by \$533,474 of general government expenses, which is only 13% of the total program expenses. A breakdown by program of expenses and program revenues follows.

Program Expenses and Revenues-General Government



The City of Tuscola funds a vast majority of the economic development programs with Tax Increment.9. Financing revenues, not with General Fund revenues. The following chart shows the current year TIT revenues were the primary means to fund all other expenditures for economic development projects for FY 2012.



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Tuscola'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 of Tuscola's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Tuscola's governmental funds reported combined ending fund balances of \$5,434,714. Seventeen percent, or \$918,433, of this amount constitutes *unassigned, undesignated fund balance*, which is available for spending at the government's discretion. \$984,905 is in a nonspendable form, such as prepaid expenses or long term receivable amounts. The remainder of fund balance is *restricted or committed* to indicate that it is not available for new spending because it has already been committed for debt service (\$115,335) and other designated projects and programs (\$3,114,624).

The general fund is the chief operating fund of the City of Tuscola. At the end of the current fiscal year, total fund balance of the general fund was \$3,080,439, of that \$1,872,952 is nonspendable, restricted or committed for specific purposes while \$1,207,487 is unassigned and available for spending at the government's discretion. Unassigned fund balance represents 39 percent of total general fund expenditures. Because of its reliance on sales tax revenues (52% of total revenues, as shown in the previous chart titled "Revenues by Source-Governmental Activities without TIP"), it is important for the City to maintain a sufficient unassigned fund balance. In times of low local sales, due to seasonal shopping trends or events out of the control of the City's Government, sales taxes can fluctuate low enough that the City has to rely on the unassigned fund balance to meet monthly obligations and program expenses. The past several years of economic lethargy that has plagued the US and Illinois has wreaked havoc on many retail dependent markets. The City leaders have taken a conservative approach to managing the city's finances through this time, expecting the same type of retail slow down. Fortunately, our retail environment has not only weathered the storm, but has shown evidence of thriving under these conditions. For the fiscal year ending April 30, 2011, City sales tax revenues showed a robust 11.57% increase, and continued to grow another 2.33% in the recent year ending April 30, 2012.

The City's TIF funds are primarily used to assist local businesses in funding projects for economic growth within the TIF districts. A few of those projects in FY 2012 were Hotwire Networks, The Smith House Event Center, Vintage Karma art co-op, and the former Dixie Truckstop property redevelopment. The TIF fund also

has on-going receipts of principal and interest income from low interest loans on past TIF funded projects. A.1 ()-complete accounting of TIF funded activities is available in the annual TIF report compiled by the City and submitted to the Office of the Comptroller- State of Illinois.

The City Motor Fuel Tax Funds are used mostly to tried: debt service obligations on the 2011 road improvements to portions of Main, Sale, Daggy, Pembroke and Prairie Streets. In FY 2012 funds were also used for annual maintenance to the City's chip and tar streets. At April 30, 2012, the city was in the process of bonding new debt in the amount of \$500,000 for the purpose of making improvements to South Main Street.

The City's Tourism Funds are derived from a tax on local hotel operators. In FY 2008, the City Council voted to raise the tax percentage from 5% to 6%. Funds derived from the tax are dedicated to tourism and marketing efforts within the City. With the increase in the tax, the City Council further directed a portion of those funds to be used to commission a marketing study and fund marketing efforts for the City of Tuscola.

The City's Library Fund expenses are to operate and improve the City's library. The library was built in 1903 with a Carnegie library grant and operates today mostly from property tax funds.

Proprietary funds. The City of Tuscola maintains two proprietary funds, the Water Fund and the Sewer Fund, These fund financials provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the proprietary funds at the end of the year amounted to \$8,472,392,

The Water Fund revenues come from fees charged to users of the City's water system. Expenses for the operation of the water system are paid exclusively from those funds. The City's water system, as any infrastructure system, is continually being upgraded and maintained. The Water Fund revenues are also used for debt service on bonds originally sold to fund the purchase of the water system, upgrades to the water system and the construction of a water pipeline to transport purchased water from Illinois American Water Company in Champaign County to the City of Tuscola.

The Sewer Fund revenues come from fees charged to users of the City's sewer system. Expenses for the operation of the sewer system are paid exclusively from those funds. The City's sewer system, as any infrastructure system, is continually being upgraded and maintained using sewer system fund balances, The Sewer Fund revenues are also used for debt service on bonds originally sold to fund major upgrades to the system and the building of a new waste water treatment facility.

General Fund Budgetary Highlights

The City staff develops a working budget prior to the beginning of each fiscal year. This working budget is based on City Council goals of what programs to fund, capital projects and purchases desired, levels of taxation, types and amounts of user fees, estimates of State revenues, historical operating expenses and desired cash reserves and fund balance, The working budget is presented to the City Council and adopted by majority vote. The City staff use this budget to guide operations throughout the fiscal year.

The legal spending limits of the City of Tuscola, as in most municipal governments, are set by the appropriation budget. The appropriation budget is also developed by City staff taking into account the maximum acceptable spending for operations and other possible contingencies. The appropriation budget is passed via ordinance of the City Council in accordance with State statues. The City Council may vote to transfer appropriated amounts between departments or line items as needed during the year. But there are very few remedies, as described in State statue, if the total appropriation amount needs to be raised or lowered.

During the fiscal year 2012 there was no change in overall appropriations amounts between the original and final amended appropriation budget.

Capital Asset and Debt Administration

Capital assets. The City of Tuscola's investment in capital assets for its governmental and business-type activities as of April 30, 2012, amounts to \$32,336,824 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, water system, sewer system, storm sewer system, parks, roads, highways, and bridges. The following Comparative Statement of Capital Assets, net of depreciation shows the change in assets for the governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Land	\$ 2,820,194	\$ 2,544,515	\$ 637,198	637,198	\$ 3,467,392	\$ 3,181,713
Land Improvements	676,361	674,342			676,361	674,342
Buildings	2,316,597	2,394,440		-	2,316,597	2,394,440
Plant, Machinery & Equipment	696,177	530,481	6,500,667	6,206,022	7,196,844	6,736,503
Vehicles	904,631	841,290	31,141	24,061	935,772	866,361
Distribution System Infrastructure			4,032,161	2,898,521	4,032,161	2,898,521
Work in Progress	13,721,697	12,979,577			13,721,697	12,979,577
	<u>\$ 21,135,657</u>	<u>\$ 19,964,645</u>	<u>\$ 11,201,167</u>	<u>\$ 9,765,802</u>	<u>\$ 32,336,824</u>	<u>\$ 29,730,447</u>

Additional information on the City of Tuscola's capital assets can be found in Note 2C in the Notes to Financial Statements of this report.

Long-term debt. At the end of the current fiscal year, the City of Tuscola had total debt outstanding of \$4,788,050. Following is a comparative statement of outstanding debt:

	Governmental Activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds-Alternate Revenue Bonds	\$ 457,000	\$ 500,000	\$ 3,605,000	\$ 3,960,000	\$ 4,062,000	\$ 4,460,000
T1F Revenue Bonds	100,000	145,000			100,000	145,000
IEPA Loan Payable			849,172		849,172	
Less deferred charge on refunding			(287,157)	(112,706)	(287,157)	(112,706)
Compensated Absences	49,941	39,940	14,094	10,943	64,035	50,883
Total	<u>\$ 606,941</u>	<u>\$ 684,940</u>	<u>\$ 4,181,109</u>	<u>\$ 3,858,237</u>	<u>\$ 4,788,050</u>	<u>\$ 4,543,177</u>

The City of Tuscola's total debt increased by \$244,873 during the current fiscal year. The increase is due to the addition of debt in the form of low interest loans from the Illinois Environmental Protection Agency for water and sewer infrastructure improvements. It is anticipated that 25% of the \$849,172, or \$212,293 in those IEPA loans will be forgiven as a grant upon completion of the projects provided for under the financing. Additional information on the City's long-term debt can be found in Note 3G in the Notes to Financial Statements of this report.

Economic Factors and Next Year's Budgets and Rates

The Tanger Outlet Center lies within the limits of the City of Tuscola and is a major contributor to the area's economy, as the Center is a large employer (estimated at 300) and a large generator of local taxes. Approximately 35% of the City's overall sales tax revenue is generated from Center sales and the City realizes approximately \$350,000 in annual property tax revenues from the property. This contribution helps make the City of Tuscola more financially sound than many communities of similar size or population. Conversely, this also creates financial vulnerabilities for the City in the event of a drastic change in the Center

' operation. During this fiscal year, the Tanger Outlet Center has continued to enjoy a rejuvenation of retail ' 2- occupancy by adding to their top brand name stores with new offerings such as Justice and J Crew, and anticipating the opening of an Under Armor store in the fall of 2012.

The rate setting (not including TIF EAV of \$17,799,199) equalized assessed value (EAV) of taxable property in the City for 2011 levy year was \$57,642,615, which represents one-third market value. Residential properties make up 84% of the ENV for the 2011 levy year. Commercial developments constitute 14.5% of the EAV. Keeping the City's tax rate low has been a long-standing goal of the City's leadership. After a 10 year period of lowering rates each year, the Council has in recent years maintained a flat rate with only small increases in the prior few years' levies. It is expected that, barring unforeseen events, this goal will continue to drive tax levy decisions in future years.

The State of Illinois collects and distributes sales and income tax revenues to the City of Tuscola, as it does to all local governments. Those tax revenues are a significant portion of the general fund revenues for the City. In recent years, the State of Illinois has encountered a mounting fiscal crisis, punctuated by the fact that the General Revenue fund of the state is reaching the largest backlog of unpaid bills in state history. The State is currently 3 months behind in distribution of the local portion of state income tax, which accounts for \$95,062 in revenues that the State of Illinois owes the City of Tuscola. Due to these financial problems, some state legislators are proposing changes to state law that could negatively impact the City's revenues of sales, Replacement taxes and/or income tax. At this point, none of these changes have been enacted into law, but the State's financial issues, and how the state will address them, remain a potential future dilemma for the City's state tax revenues.

There are currently no other known contingencies that would force a major change in the City's budgeting, spending, or taxation.

Requests for Information

This financial report is designed to provide a general overview of the City of Tuscola'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 City of Tuscola, 214 N. Main St., Tuscola, IL 61953.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Net Assets

April 30, 2012

<u>Assets</u>	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	46,347	100	\$ 46,447
Investments	1,518,705	208,227	1,726,932
Due from Douglas County	1,955,505		1,955,505
Due from State of Illinois	680,760	431,241	1,112,001
Receivables, net	23,280	91,393	114,673
Loans receivable	801,867		801,867
Prepaid items	91,249	12,495	103,744
Investment in joint venture		4,780	4,780
Deferred bond issue costs, net		54,287	54,287
Restricted Assets:			
Cash and cash equivalents	97,966	778,202	876,168
Investments	2,809,456	195,607	3,005,063
Capital Assets (net of accumulated depreciation):			
Land	2,820,194	637,198	3,457,392
Land improvements	676,361		676,361
Buildings	2,316,597		2,316,597
Plant, machinery and equipment	696,177	6,500,667	7,196,844
Vehicles	904,631	31,141	935,772
Infrastructure	13,721,697	4,032,161	17,753,858
<i>Total Assets</i>	29,160,792	12,977,499	42,138,291
<i>Liabilities:</i>			
Accounts payable	346,872	262,144	609,016
Accrued payroll	56,051	13,879	69,930
Accrued Interest	8,197	8,530	16,727
Customer deposits		29,560	29,560
Accrued compensated absences	49,941	14,094	64,035
Deferred Revenue		9,885	9,885
Deferred loss on bond refunding, net		(287,157)	(287,157)
Non-current liabilities:			
Due within one year	95,000	560,000	655,000
Due after more than one year	462,000	3,894,172	4,356,172
<i>Total Liabilities:</i>	1,018,061	4,505,107	6,523,168
AfgVAm,			
invested in capital assets, net of related debt	20,578,657	7,596,166	28,174,823
Restricted for:			
Debt service	85,391	778,202	863,593
Transportation projects	84,016		84,016
Capital projects and improvements	925,477	195,607	1,121,084
Other	815,922		815,922
Unrestricted	5,653,268	(97,583)	5,555,685
<i>Total Net Assets:</i>	\$ 28,142,731	\$ 8,472,392	\$ 36,615,123

The notes to financial statements are an Integral part of this statement.

City of Tuscola

Tuscola, Illinois

Statement of Activities

For the Year Ended April 30, 2012

Functions/Programs:	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 533,474	\$ 53,119	\$ 20,716	\$	\$ (459,639)	\$	\$ (459,639)
Public safety	944,612	42,709	2,200	\$	(899,703)	\$	(899,703)
Public works	290,054			\$	(290,054)	\$	(290,054)
Culture and recreation	415,203	83,735	7,152	\$	(324,316)	\$	(324,316)
Development	1,880,603	75,971	100,345	\$	(1,704,287)	\$	(1,704,287)
Interest on long-term debt	16,401			\$	(16,401)	\$	(16,401)
<i>Total governmental activities</i>	4,080,347	255,534	130,413	\$	(3,694,400)	\$	(3,694,400)
Business-type activities:							
Water	942,354	952,627				10,273	10,273
Sewer	605,650	701,156		548,189		643,695	643,695
<i>Total business-type activities</i>	1,548,004	1,653,783	\$	548,189	\$	653,968	653,968
<i>Total functions/programs</i>	\$ 5,628,351	\$ 1,909,317	\$ 130,413	\$ 548,189	(3,694,400)	653,968	(3,040,432)
General revenues:							
Taxes:							
Property taxes					1,938,104		1,938,104
Sales taxes					2,351,028		2,351,028
Income taxes					560,197		560,197
Replacement taxes					44,647		44,647
Motor fuel taxes					129,792		129,792
Interest income					4,070	3,413	7,483
Miscellaneous income					33,125		33,125
Total general revenues					5,060,963	3,413	5,064,376
Change in net assets					1,366,563	657,381	2,023,944
Net assets, beginning					26,776,168	7,815,011	34,591,179
Net assets, ending					\$ 28,142,731	\$ 8,472,392	\$36,615,123

The notes to financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Balance Sheet - Governmental Funds

April 30, 2012

	General Fund	Tax Increment Financing Fund	Motor Fuel Tax Fund	Tourism Fund	Library Fund	Tuscola Economic Development, Inc	Total
Cash and cash equivalents	\$ 11,773	\$ -	\$ -	\$ -	\$ 50	\$ 34,524	\$ 46,347
Investments	900,088	290,318	84,016	188,773	41,000	14,510	1,518,705
Due from Douglas County	455,149	1,377,001	-	-	123,355	-	1,965,505
Due from State of Illinois	403,611	84,045	8,697	-	1,315	-	497,668
Due from other Funds	91,788	-	-	-	-	-	91,788
Accounts receivable	9,900	-	-	13,381	-	-	23,281
Loans receivable	-	801,867	-	-	-	-	801,867
Prepaid items	89,303	-	-	402	1,545	-	91,250
Restricted Assets:							
Cash and cash equivalents	11,774	55,956	29,435	-	-	800	97,965
Investments	1,680,086	1,129,370	-	-	-	-	2,809,456
Total Assets	\$ 3,653,472	33,738,557	\$ 122,148	\$ 202,556	\$ 167,255	3 49,834	\$ 7,933,832

Whiffles and Funs! SalancQ

Liabilities

Accounts payable	\$ 26,008	\$ 18,860	\$ 275,691	\$ 19,472	\$ 3,654	\$ 3,177	\$ 346,872
Due to other funds		91,788	-	-	-	-	91,788
Accrued salaries	47,538	4,902	-	-	3,611	-	56,051
Accrued compensated absences	45,378	3,253	-	-	1,311	-	49,942
Deferred revenue	454,109	1,377,001	-	-	123,355	-	1,954,465
Total Liabilities	673,033	1,495,804	275,691	19,472	131,941	3,177	2,499,118

Fund Balance

Nonspendable	181,091	801,867	-	402	1,545	-	984,905
Restricted	93,131	1,185,326	122,149	188,773	41,050	-	1,630,429
Committed	1,598,730	-	-	-	-	800	1,599,530
Assigned		255,560	-	-	-	45,857	301,417
Unassigned	1,207,487	-	(275,692)	(6,091)	(7,271)	-	918,433
Total Fund Balance	3,080,439	2,242,753	(153,543)	183,084	35,324	46,657	5,434,714

Total Liabilities and Fund Balance \$ 3,653,472 \$3,738,557 \$ 122,148 \$ 202,556 \$ 167,265 \$ 49,834

Reconciliation to Statement of Net Assets

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

Capital assets used in governmental activities, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds	31,727,002 <u>(10,591,345)</u>
	21,135,657

Other assets are not available to pay for current-period expenditures and therefore are deferred or not recorded in the funds.	2,137,557
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Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(565,197)</u>
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Net assets of governmental activities	<u>\$ 28,142,731</u>
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City of Tuscola

Tuscola, Illinois

**Statement of Revenues, Expenditures and Changes in Fund Balances-
Governmental Funds**

For the Year Ended April 30, 2012

	General	Tax increment Financing	Motor Fuel Tax	Tourism	Library	Tuscola Economic Development, The	Total Governmental Funds
Revenues:							
Properly taxes	\$ 441,878	\$ 1,371,878	\$	\$	\$ 119,846	\$	\$ 1,933,600
State sales taxes	1,652,224	340,697					1,992,921
State income taxes	377,105						377,105
Replacement taxes	35,556				9,090		44,646
Motor fuel taxes			129,792				129,792
Sales taxes - city		197,273		160,833			358,106
Fines and fees	29,503				7,004		36,507
Grant revenues	22,916			345	7,152	100,000	130,413
Licenses and permits	19,286						19,286
Rent	10,200						10,200
Franchise fee	33,833						33,833
Memorial funds	250						250
Interest income	2,245	21,988	230	101	53		24,617
Fire insurance	13,206						13,206
Pool income	66,531						66,531
Program Revenue						55,427	55,427
Miscellaneous	20,339		210	4,587	17,377		32,873
Total Revenues	2,731,072	1,931,834	130,232	165,866	144,882	155,427	5,259,313
Expenditures:							
General government	492,035						492,035
Public safety	839,359						639,359
Public works	406,180		60,759				466,939
Culture and recreation	207,571				140,801		348,372
Development		1,920,455		172,124		141,114	2,233,693
Debt Service:							
Principal retirement		45,000	43,000				138,000
Interest and fiscal charges		8,555	18,780				27,335
Capital outlay	344,129	85,983	418,328				848,440
Total Expenditures	2,289,274	2,059,993	540,867	172,124	140,801	141,114	5,344,173
Excess of revenues over (under) expenditures	441,798	(128,159)	(410,635)	(6,258)	4,081	14,313	<u>(84,860)</u>
Other Financing Sources (Uses):							
Debt Proceeds							
Transfers In							
Transfers Out							
Total Other Financing Sources (Uses)							
Net Change in Fund Balance	441,798	(128,159)	(410,635)	(6,258)	4,081	14,313	(84,860)
Fund Balances, beginning	2638,641	2,370,912	257,092	189,342	31,243	32,344	5,519,574
Fund Balances, ending	\$ 3,080,439	\$ 2,242,753	\$ (153,543)	\$ 183,084	\$ 35,324	\$ 46,657	<u>\$ 5,434,714</u>
Reconciliation to the Statement of Activities:							
Net change in fund balances - total governmental funds							(84,860)
Amounts reported for governmental activities in the Statement of Activities are different because:							
Governmental funds report capital outlays as expenditures while government activities report depreciation expense to allocate those expenditures over the life of the assets							1,861,401
Capital asset purchases capitalized							(14,399)
Gain (Less) on Asset Disposal							(682,109)
Depreciation expense							
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds							187,597
New debt is another financing source in governmental funds, while repayment of bond and loan principal is an expenditure in the governmental funds, but the new debt increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets.							88,000
Some expenses reported in the Statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.							1,093
Change in Net Assets of Governmental Activities							<u>\$ 1,366,563</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Net Assets - Proprietary Funds

April 30, 2012

	Water Fund	Sewer Fund	Total
Assets			
Current assets			
Cash and cash equivalents	60	\$ 40	100
Investments	208,227		208,227
Due from State of Illinois	270,362	160,879	431,241
Accounts receivable, net	51,533	39,860	91,393
Prepaid items	6,913	5,582	12,496
Total Current Assets	\$ 637,095	\$ 206,361	743,456
Noncurrent assets			
Cash-restricted	412,636	365,566	778,202
Investments-restricted	124,106	71,500	195,606
Deferred bond issue costs, net	28,474	25,813	64,287
Investment in joint venture	4,780		4,780
Capital assets;			
Property, plant and equipment	6,695,931	11,513,016	18,208,947
Accumulated Depreciation	(2,422,449)	(4,585,332)	(7,007,781)
Total Noncurrent Assets	4,843,478	7,390,563	12,234,041
Total Assets	5,380,573	7,596,924	12,977,497
Liabilities			
Current Liabilities			
Accounts payable	95,532	166,611	262,143
Customer deposits	29,560		29,560
Accrued payroll	8,715	5,164	13,879
Accrued interest	3,529	5,001	8,530
Deferred Revenue		9,885	9,885
Deferred loss on bond refunding, net	(175,562)	(111,596)	(287,158)
Accrued compensated absences	8,580	5,514	14,094
General obligation bonds - current	260,000	300,000	560,000
Total Current Liabilities	230,354	380,579	610,933
Noncurrent Liabilities			
General obligation bonds	1,285,000	1,760,000	3,046,000
IEPA Loan Payable	688,293	160,879	849,172
Total Noncurrent Liabilities	1,973,293	1,920,879	3,894,172
Total Liabilities	2,203,647	2,301,458	4,605,105
Net Assets			
Invested in capital assets, net of related debt	2,728,483	4,867,684	7,596,167
Restricted;			
Restricted for capital projects and improvements	124,106	71,500	196,606
Restricted for debt service	412,636	365,566	778,202
Unrestricted	(88,299)	(9,284)	(97,583)
Total Net Assets	3,176,926	\$ 6,295,466	\$ 8,472,392

The notes to basic financial statements are an integral part of this statement.

City of Tuscola

Tuscola, Illinois

Statement of Revenues, Expenses and Changes in Net Assets- Proprietary Funds

For the Year Ended April 30, 2012

	Water	Sewer	Total
<u>Operating Revenues</u>			
Charges for services	\$ 935,438	\$ 698,632	\$ 1,634,070
Miscellaneous	17,189	2,525	19,714
Total Operating Revenues	952,627	701,157	1,653,784
<u>Operating Expenses:</u>			
Personnel services	185,481	124,275	309,756
Supplies and materials	49,784	63,062	112,846
Contractual services	452,260	97,526	549,786
Depreciation	158,785	258,215	417,000
Total Operating Expenses	846,310	543,078	1,389,388
Operating Income (Loss)	106,317	158,079	264,396
<u>Non Operating, ftgic Expenses</u>			
Interest income	2,412	1,001	3,413
Sprayfield farm Income (loss), net		25,068	25,068
Intragovernmental Revenues		548,189	548,189
Interest expense	(96,044)	(87,641)	(183,685)
Total Non Operating Revenues (Expenses)	(93,632)	486,617	392,986
Net Income (loss)	12,685	644,696	667,381
Net assets - beginning	3,164,241	4,650,770	7,815,011
Net assets - ending	\$ 3,176,926	\$ 5,295,466	\$ 8,472,392

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Cash Flows**Proprietary Funds**

For the Year Ended April 30, 2012

Cash Flows from Operating Activities:	Water	Sewer	Totals
Receipts from users	\$ 937,844	\$ 700,912	\$ 1,638,757
Payments to suppliers	(440,219)	(147,617)	(587,836)
Payments to employees	(181,622)	(121,858)	(303,479)
Other receipts (payments)	17,189	2,525	19,714
Net cash provided by (used in) operating activities	333,193	433,962	767,156
Cash Flows from Capital and Related Financing Activities:			
Sale (purchase) of capital assets	(908,901)	(943,463)	(1,852,364)
Interest paid on capital debt	(106,014)	(100,022)	(206,036)
Sprayfield farm income (loss)		25,068	25,068
Principal paid on capital debt	(225,000)	(245,000)	(470,000)
Net cash used for capital and related financing activities	(1,239,915)	(1,263,417)	(2,503,332)
Cash Flows from Investing Activities:			
Investment income	2,412	1,001	3,413
Intragovernmental Revenues		548,189	548,189
Sale of investments	1,150,182	310,179	1,460,361
Net cash provided (used) by investing activities	1,152,594	859,369	2,011,963
Net increase (decrease) in cash and cash equivalents	245,873	29,915	275,787
Cash and cash equivalents, beginning of the year	166,823	335,691	502,514
Cash and cash equivalents, end of the year	412,696	\$ 365,606	778,301
Reconciliation of Operating Income (Loss') To Net Cash Provided (Used) By Operating Activities			
Operating income (loss)	106,317	\$ 158,079	\$ 264,396
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	158,785	258,215	416,999
Change in assets and liabilities:			
(Increase) decrease-accounts receivable	1,097	2,281	3,377
(Increase) decrease-prepaid insurance	(403)	(288)	(691)
(Increase) decrease-joint venture equity	817		817
Increase (decrease)-accounts payable	61,411	13,259	74,670
Increase (decrease)-accrued payroll	1,931	1,195	3,126
Increase (decrease)-customer deposits	1,310		1,310
Increase (decrease)-accrued compensated absences	1,929	1,222	3,151
Total adjustments	226,876	275,883	502,759
Net cash provided (used) by operating activities	\$ 333,193	\$ 433,962	\$ 767,156

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Fiduciary Net Assets - Fiduciary Funds

April 30, 2012

	Agency Funds
<u>ASSETS</u>	
<u>Current assets:</u>	
Cash	
Accounts receivable	18,079
Total assets	<u>18,079</u>
<u>LIABILITIES</u>	
<u>Current liabilities:</u>	
Accounts payable	18,079
Total liabilities	<u>18,079</u>

The notes to basic financial statements are an integral part of this statement

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements
April 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements conform to generally accepted accounting principles (GAAP) as applicable to governments. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. FASB statements and interpretations issued after November 30, 1989 have not been applied.

1.A. FINANCIAL REPORTING ENTITY

The City has adopted the provisions of GASB Statement No. 14, "The Financial Reporting Entity," under which the financial statements include all the organizations, activities, functions and component units for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Accordingly, the financial statements of the reporting unit include those of the City of Tuscola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit – Tuscola Economic Development, Inc. (TEDI), an entity legally separate from the City of Tuscola, is fiscally dependent on the City for support and its primary purpose directly benefits the City. Based upon the application of the above criteria, TEDI is a blended component unit and will be reported as if it were part of the City's operations for financial reporting purposes.

1.B. BASIS OF PRESENTATION

GOVERNMENT WIDE FINANCIAL STATEMENTS

In March 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance policies and procedures.

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City has decided all funds will be presented as major funds.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.B. BASIS OF PRESENTATION (continued)

FUND FINANCIAL STATEMENTS (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Brief Description</u>
Tax Increment Financing	Accounts for the incremental property taxes realized within the Tax Increment Financing District. Expenditure of these revenues is restricted to capital improvements and redevelopment.
Motor Fuel Tax	Accounts for revenues received and expenditures paid for street maintenance.
Tourism	Accounts for revenues and expenditures for promoting tourism in the City. Hotel/Motel taxes provide revenues for operations.
Library	Accounts for revenues and expenditures of operating the City Library. Property taxes and Replacement taxes provide the revenues for operations.
Tuscola Economic Development, Inc.	Accounts for revenues and expenditures of developing economic opportunities for the City.

Proprietary Funds

Enterprise Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector, The reporting entity includes the following enterprise funds:

<u>Fund</u>	<u>Brief Description</u>
Water	Accounts for revenues received and expenses paid for operating the water system.
Sewer	Accounts for revenues received and expenses paid for operating the sewer system.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.B, BASIS OF PRESENTATION (continued)

FUND FINANCIAL STATEMENTS (continued)

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the government as an agent for individuals or private organizations. The reporting entity includes the following agency funds:

<i>Fund</i>	<i>Brief Description</i>
Sec 125 Plan	Accounts for amounts withheld from employees salaries and payments to providers.
Garbage Fund	Accounts for amounts billed and collected for sanitary service.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, using the accrual basis method of accounting. On this basis, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement 33. Property taxes are recognized as revenue in the year for which the taxes are levied, Grants are recognized as revenue when eligibility requirements are met, such as allowable costs having been incurred.

Governmental Funds

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified accrual basis of accounting, is used as appropriate:

On this basis, all material sources of revenue are recognized when they become measurable and available. "Available" is defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the City, this translates to 60 days after the end of the fiscal year. Major sources of revenue susceptible to accrual include property taxes, sales taxes, income taxes, personal property replacement taxes, other intergovernmental revenues, charges for services and investment interest.

Material amounts of expenditures are recognized when the liability is incurred. Exceptions include: principal and interest on long-term debt, which is recognized when due.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (continued)

MEASUREMENT FOCUS (continued)

Proprietary Funds

The measurement focus for proprietary funds is the flow of economic resources. All proprietary funds are accounted for using the accrual basis method of accounting. On this basis, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Proprietary funds operating revenues consist of charges for services and miscellaneous revenue resulting from the provision of services to users. In the enterprise funds, this translates to water and sewer revenue. Operating expenses are those incurred in providing water and sewer services. Operating expenses are expenses incurred in providing the services, such as personal services, materials and supplies and contractual services.

Fiduciary Funds

The measurement focus for fiduciary funds is the flow of economic resources. All fiduciary funds are accounted for using the accrual basis method of accounting. On this basis, revenues are recognized when they are earned and expenses are recognized when they are incurred.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

INVESTMENTS

Investments classified in the financial statements normally consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The City's GAAP basis of accounting reports capital assets and reports depreciation where appropriate. The accounting treatment over property, plant and equipment (capital assets) 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.

Government-Wide Statements

Governmental Activities

In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to May 1, 2004. Prior to May 1, 2004, governmental funds' infrastructure assets were not capitalized.

City of Tuscola

Tuscola, Illinois

**Statement of Revenues, Expenses and Changes in Net Assets-
Proprietary Funds**

For the Year Ended April 30, 2012

	Water	Sewer	Total
<u>Operating Revenues</u>			
Charges for services	\$ 935,438	\$ 698,632	\$ 1,634,070
Miscellaneous	17,189	2,525	19,714
Total Operating Revenues	962,627	701,157	1,653,784
<u>Operating Expenses:</u>			
Personnel services	185,481	124,276	309,756
Supplies and materials	49,784	63,062	112,846
Contractual services	452,260	97,526	549,786
Depreciation	158,785	258,215	417,000
Total Operating Expenses	846,310	543,078	1,389,388
Operating Income (Loss)	106,317	158,079	264,396
<u>Operating Revenues</u>			
Interest income	2,412	1,001	3,413
Sprayfield farm Income (loss), net	-	25,068	25,068
Intragovernmental Revenues		548,189	548,189
Interest expense	(96,044)	(87,641)	(183,685)
Total Non Operating Revenues (Expenses)	(93,632)	486,617	392,985
Net Income (loss)	12,685	644,696	657,381
Net assets - beginning	3,164,241	4,650,770	7,815,011
Net assets - ending	3,176,926	\$ 5,295,466	\$ 8,472,392

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Cash Flows**Proprietary Funds**

For the Year Ended April 30, 2012

Cash Flows from Operating Activities:	Water	Sewer	Totals
Receipts from users	\$ 937,844	\$ 700,912	\$ 1,638,757
Payments to suppliers	(440,219)	(147,617)	(587,836)
Payments to employees	(181,622)	(121,858)	(303,479)
Other receipts (payments)	17,189	2,525	19,714
Net cash provided by (used in) operating activities	333,193	433,962	767,156
Cash Flows from Capital and Related Financing Activities:			
Sale (purchase) of capital assets	(908,901)	(943,463)	(1,852,364)
Interest paid on capital debt	(106,014)	(100,022)	(206,036)
Sprayfield farm income (loss)		25,068	25,068
Principal paid on capital debt	(225,000)	(245,000)	(470,000)
Net cash used for capital and related financing activities	(1,239,915)	(1,263,417)	(2,503,332)
Cash Flows from Investing Activities:			
Investment income	2,412	1,001	3,413
Intragovernmental Revenues		548,189	548,189
Sale of investments	1,150,182	310,179	1,480,351
Net cash provided (used) by investing activities	1,152,594	859,369	2,011,963
Net increase (decrease) in cash and cash equivalents	245,873	29,915	275,787
Cash and cash equivalents, beginning of the year	166,823	335,691	502,514
Cash and cash equivalents, end of the year	412,696	365,606	\$ 778,301
Reconciliation of Operating Income (Loss),			
To Net Cash Provided (Used) By Operating Activities			
Operating income (loss)	106,317	\$ 158,079	\$ 264,396
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	158,785	258,215	416,999
Change in assets and liabilities:			
(Increase) decrease-accounts receivable	1,097	2,281	3,377
(Increase) decrease-prepaid insurance	(403)	(288)	(691)
(Increase) decrease-joint venture equity	817		817
Increase (decrease)-accounts payable	61,411	13,259	74,670
Increase (decrease)-accrued payroll	1,931	1,195	3,126
Increase (decrease)-customer deposits	1,310		1,310
Increase (decrease)-accrued compensated absences	1,929	1,222	3,151
Total adjustments	226,876	275,883	502,759
Net cash provided (used) by operating activities	\$ 333,193	\$ 433,962	767,156

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Statement of Fiduciary Net Assets - Fiduciary Funds

April 30, 2012

	<u>Agency Funds</u>
<u>ASSETS</u>	
<u>Current assets:</u>	
Cash	
Accounts receivable	18,079
Total assets	<u>18,079</u>
<u>LIABILITIES</u>	
<u>Current liabilities:</u>	
Accounts payable	\$ <u>18,079</u>
Total liabilities	<u>18,079</u>

The notes to basic financial statements are an integral part of this statement.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements
April 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements conform to generally accepted accounting principles (GAAP) as applicable to governments. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. FASB statements and interpretations issued after November 30, 1989 have not been applied.

LA. FINANCIAL REPORTING ENTITY

The City has adopted the provisions of GASB Statement No. 14, "The Financial Reporting Entity," under which the financial statements include all the organizations, activities, functions and component units for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

Accordingly, the financial statements of the reporting unit include those of the City of Tuscola (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit – Tuscola Economic Development, Inc. (TEDI), an entity legally separate from the City of Tuscola, is fiscally dependent on the City for support and its primary purpose directly benefits the City. Based upon the application of the above criteria, TEDI is a blended component unit and will be reported as if it were part of the City's operations for financial reporting purposes.

LB. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In March 2009, the GASB issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance policies and procedures.

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City has decided all funds will be presented as major funds.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.B. BASIS OF PRESENTATION (continued)

FUND FINANCIAL STATEMENTS (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Brief Description</u>
Tax Increment Financing	Accounts for the incremental property taxes realized within the Tax Increment Financing District. Expenditure of these revenues is restricted to capital improvements and redevelopment.
Motor Fuel Tax	Accounts for revenues received and expenditures paid for street maintenance.
Tourism	Accounts for revenues and expenditures for promoting tourism in the City. Hotel/Motel taxes provide revenues for operations.
Library	Accounts for revenues and expenditures of operating the City Library. Property taxes and Replacement taxes provide the revenues for operations.
Tuscola Economic Development, Inc.	Accounts for revenues and expenditures of developing economic opportunities for the City.

Proprietary Funds

Enterprise Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds:

<u>Fund</u>	<u>Brief Description</u>
Water	Accounts for revenues received and expenses paid for operating the water system.
Sewer	Accounts for revenues received and expenses paid for operating the sewer system.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.B. BASIS OF PRESENTATION (continued)

FUND FINANCIAL STATEMENTS (continued)

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the government as an agent for individuals or private organizations. The reporting entity includes the following agency funds:

<i>Fund</i>	<i>Brief Description</i>
Sec 125 Plan	Accounts for amounts withheld from employees salaries and payments to providers.
Garbage Fund	Accounts for amounts billed and collected for sanitary service.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, using the accrual basis method of accounting. On this basis, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement 33. Property taxes are recognized as revenue in the year for which the taxes are levied. Grants are recognized as revenue when eligibility requirements are met, such as allowable costs having been incurred.

Governmental Funds

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified accrual basis of accounting, is used as appropriate:

On this basis, all material sources of revenue are recognized when they become measurable and available. "Available" is defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the City, this translates to 60 days after the end of the fiscal year. Major sources of revenue susceptible to accrual include property taxes, sales taxes, income taxes, personal property replacement taxes, other intergovernmental revenues, charges for services and investment interest.

Material amounts of expenditures are recognized when the liability is incurred. Exceptions include: principal and interest on long-term debt, which is recognized when due.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (continued)

MEASUREMENT FOCUS (continued)

Proprietary Funds

The measurement focus for proprietary funds is the flow of economic resources. All proprietary funds are accounted for using the accrual basis method of accounting. On this basis, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Proprietary funds operating revenues consist of charges for services and miscellaneous revenue resulting from the provision of services to users. In the enterprise funds, this translates to water and sewer revenue. Operating expenses are those incurred in providing water and sewer services. Operating expenses are expenses incurred in providing the services, such as personal services, materials and supplies and contractual services.

Fiduciary Funds

The measurement focus for fiduciary funds is the flow of economic resources. All fiduciary funds are accounted for using the accrual basis method of accounting. On this basis, revenues are recognized when they are earned and expenses are recognized when they are incurred.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

INVESTMENTS

Investments classified in the financial statements normally consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The City's GAAP basis of accounting reports capital assets and reports depreciation where appropriate. The accounting treatment over property, plant and equipment (capital assets) 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.

Government-Wide Statements

Governmental Activities

In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to May 1, 2004. Prior to May 1, 2004, governmental funds' infrastructure assets were not capitalized.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Government-Wide Statements (continued)

Governmental Activities (continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report equipment capital assets, \$5,000 for building capital assets and \$5,000 for infrastructure capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	5-100 years
Improvements other than buildings	30-50 years
Machinery, furniture, and equipment	5-30 years
Vehicles	3-30 years
Infrastructure	30-125 years

In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Business-Type Activities (Enterprise Funds)

Enterprise Fund capital assets valued at \$5,000 or more are capitalized within the fund. Capital assets are stated at actual or estimated historical cost. Donated fixed assets are valued at their fair market value on the date donated. Depreciation is computed on the straight-line method over the estimated useful life of the asset. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The range of estimated useful lives by type of asset is as follows:

Buildings	5-100 years
Improvements other than buildings	30-50 years
Machinery, furniture, and equipment	3-20 years
Vehicles	3-30 years
Infrastructure	30-80 years

LONG-TERM DEBT

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

Long-term debt of 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 reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)

April 30, 2012

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Fund Financial Statements

EQUITY CLASSIFICATION

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets-Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City council through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the City council. Unassigned fund balance in the General Fund is the net resources in excess of what can be property classified in one of the above four categories. Negative fund balance in other governmental funds represents excess of expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

I.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues:

General government	permits, licenses, fees, poller fines, rent, pool income, fire insurance and TIF loan interest income.
--------------------	--

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued).
April 30, 2012

1.1?. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans-Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services-Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements-Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers-Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances-Amounts reported in the fund financial statements are interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities-Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers-Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

1.G. PROPERTY TAXES

Property taxes are levied and attach as an enforceable lien on January 1, on property values assessed as of the same date. Taxes are levied by December 31 of the subsequent year (by passage of the Tax Levy Ordinance). The 2011 tax levy was adopted by the Council on December 12, 2011. Tax bills are prepared by the County and issued on or about June 1, and are payable in two installments, on or about July 1, and September 1. The City receives significant distributions of taxes approximately one month after these due dates. No provision has been made for delinquent property taxes since in past years the amount has been immaterial. In the governmental funds, property taxes are recorded as receivables and deferred revenues at the time the tax levy attaches as an enforceable lien on January 1. In the enterprise funds, property taxes are recorded as revenue at the time the tax levy attaches as an enforceable lien on January 1. The City has received and recognized \$1,933,599 from the 2010 tax levy.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued),
April 30, 2012

1.K USE OF ESTIMATES

The preparation of financial statements in conformity accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

LI. COMPENSATED ABSENCES

City employees are entitled to certain compensated absences based on their length of employment. Vacation days earned do not accumulate and are recorded as expenditures when they are paid. Governmental funds record as an expenditure the amount accrued during the year that would normally be liquidated with expendable resources. Governmental funds have recorded \$49,941 as the current portion of compensated absences. The proprietary funds recorded \$14,094 as compensated absences all of which is due within one year.

U. PREPAID ITEMS

In governmental and business-type funds, prepaid expenditures/expenses are deferred and expensed over the term when the services are received.

NOTE 2. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

2.A. DEPOSITS AND INVESTMENTS

DEPOSITS

At April 30, 2012 the carrying amount of the City's deposits totaled \$922,615 and the bank balances totaled \$999,865.

CUSTODIAL CREDIT RISK - DEPOSITS

Deposits are subject to custodial credit risk if uninsured and uncollateralized or covered by collateral that is not in the City's name. It is City policy to require collateral for deposit and investment balances above Federal Deposit Insurance Corporation (FDIC) insurance coverage. At April 30, 2012, the City's deposits were either covered by FDIC insurance or by pledged collateral held in the City's name.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued),

April 30, 2012

2.A. DEPOSITS AND INVESTMENTS (continued)

INVESTMENTS

At April 30, 2012 the carrying amount of the City's investments totaled \$4,613,956 and the bank balances totaled \$4,450,137. The Illinois Funds money market investment pool and certificates of deposit are the City's current investments.

CUSTODIAL CREDIT RISK - INVESTMENTS

The Illinois Funds investments are classified as external investment pools by GASB Statement No. 31. As an investment pool, the Illinois Funds are not subject to custodial credit risk, because they are evidenced by securities that exist in physical or book entry form. The certificates of deposit are covered completely by FDIC insurance.

CREDIT RATING RISK - INVESTMENTS

Investments are subject to credit rating risk for all debt securities, whether held directly or indirectly (through investment pools, mutual funds or money market funds). The Illinois Funds investment pools were rated AAAM by Standard & Poor's as of September 30, 2011.

CONCENTRATION OF CREDIT RISK - INVESTMENTS

Investments are subject to concentration of credit risk when 5% or more of the total are in securities of a single issuer. The Illinois Funds investment pools are not subject to concentration of credit risk disclosures.

INTEREST RATE RISK - INVESTMENTS

investments are subject to a decline in fair value due to fluctuating market interest rates. Interest rate risk is minimized by having maturities of less than 1 year for 100% of the City's investments,

DEPOSITS AND INVESTMENTS — LEGAL AND CONTRACTUAL PROVISIONS

Investments are limited by Public Funds Investment Act of the State of Illinois to the following:

- Bonds, notes, certificates of indebtedness, treasury bills which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
 - Bonds, notes, debentures or similar obligations of the United States of America or its agencies.
 - Interest-bearing savings, certificates of deposit, or time deposits of any bank as defined by the Illinois Banking Act.
 - Short term obligations of corporations organized in the U.S. with assets exceeding \$500,000,000 and other specified criteria.
- Money market mutual funds registered under the Investment Company Act of 1940 provided the portfolio is limited to obligations described in points 1 and 2 above.
- Federal National Mortgage Association
Public Treasurers' Investment Pools
Repurchase agreements of government securities within the meaning of the Government Securities Act of 1986.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

2.B. RESTRICTED ASSETS

Assets that are not available to finance general operations of the City are reported as restricted on the Statement of Net Assets. The restriction for transportation projects in the governmental activities is imposed under State of Illinois laws concerning how motor fuel taxes may be spent. The City's policy is to apply restricted resources first when an expense is incurred for purposes, which both restricted and unrestricted net assets are available. The City's restricted assets are as follows:

Governmental Funds

The General Fund has restricted assets consisting of the following:

Cashford Funds	\$ 52,642
Capital Replacement Funds	925,477
Reserve Funds	672,957
Fire Special Bequest Funds	29,010
Police Drug Funds	11,479
Other Funds	<u>295</u>
Total restricted assets General Fund	<u>1,691,860</u>

The Special Revenue Funds have restricted assets consisting of the following:

The Tax Increment Financing Fund has in accordance with the revenue bond ordinance and other requirements restricted the following assets:

Special Tax Allocation	870,089
Amishland Tax Fund	150,431
Pledged Tax Reserve	108,850
Pledged Tax Principal & Interest	<u>55,956</u>
Total restricted assets — Tax Increment Financing Fund	<u>1,185,326</u>

The Motor Fuel Tax Fund has in accordance with the revenue bond ordinance and other requirements restricted the following assets:

Pledged Tax Principal & Interest	29,435
Reserved by enabling legislation for highways and streets	<u>84,016</u>
Total restricted assets — Motor Fuel Tax Fund	<u>113,451</u>
Total restricted assets Governmental Funds	<u>\$3,082,130</u>

Proprietary Funds

Proprietary Funds have restricted assets consisting of the following:

The Sewer Fund has in accordance with the revenue bond ordinance, bond defeasance plans, and grant agreements restricted the following assets:

Capital Replacement Funds	\$ 71,500
Illinois Capital Grant Funds	9,885
Bond and Interest	<u>355,681</u>
Total restricted assets — Sewer Fund	<u>437,066</u>

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)
April 30, 2012

2.B. RESTRICTED ASSETS (continued)

Proprietary Funds (continued)

The Water Fund has in accordance with the revenue bond ordinance and the bond defeasance plan restricted the following assets:

Customer Deposits	\$ 29,560
Capital Replacement Funds	124,106
Bond & Interest	<u>412,636</u>
Total restricted assets - Water Fund	<u>566,302</u>
Total restricted assets - Proprietary Funds	<u>\$1,003,368</u>

2.C. CAPITAL ASSETS

A summary of capital assets related to governmental and business type activities is presented below:

	<i>Balance at</i>			<i>Balance at</i>
	<u>May 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>April 30, 2012</u>
<i>Governmental activities:</i>				
Capital assets Not being depreciated:				
Land	\$1,177,320	275,678	0	\$ 1,452,998
Land- Right of Way	<u>1,367,195</u>	<u>0</u>	<u>0</u>	<u>1,367,195</u>
Total capital assets not depreciated	<u>2,544,515</u>	<u>275,678</u>	<u>0</u>	<u>2,820,193</u>
Other capital assets:				
Land improvements	1,177,367	38,768	0	1,216,135
Buildings	4,054,253	7,900	42,114	4,020,039
Plant, machinery and equipment	1,461,933	258,847	113,465	1,607,315
Vehicles	2,265,548	169,436	112,258	2,322,726
Infrastructure	18,629,821	<u>1,110,772</u>	<u>0</u>	<u>19,740,593</u>
Total other capital assets	<u>27,588,922</u>	<u>1,585,723</u>	<u>267,837</u>	<u>28,996,808</u>
Less accumulated depreciation for:				
Land improvements	503,026	36,748	0	539,774
Buildings	1,659,813	75,432	31,803	1,703,442
Plant, machinery and equipment	925,330	99,272	113,465	911,137
Vehicles	1,424,258	102,005	108,169	1,418,094
Infrastructure	<u>5,650,246</u>	<u>368,651</u>	<u>0</u>	<u>6,018,897</u>
Total accumulated depreciation	<u>10,162,673</u>	<u>682,108</u>	<u>253,437</u>	<u>10,591,344</u>
Other capital assets, net	17,426,249	<u>903,615</u>	<u>144,000</u>	18,315,464
Governmental activities capital assets, net	<u>\$19,970,764</u>	<u>\$1MM</u>	<u>\$ 14,400</u>	<u>\$21,135,657</u>

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)
April 30, 2012

2.C. CAPITAL ASSETS (continued)

	<i>Balance at</i>			<i>Balance at</i>
	<i>May 1, 2011</i>	<i>Additions</i>	<i>Deductions</i>	<i>April 30, 2012</i>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 637,198	\$ 0	\$ 0	\$ 637,198
Other capital assets:				
Plant, machinery and equipment	10,313,189	567,850	9	10,881,039
Furniture and fixtures	70,176	3,108	0	73,284
Vehicles	272,439	12,540	0	284,979
Work in progress	0	988,707	0	988,707
Infrastructure	5,063,581	280,159	4	5,343,740
Total other capital assets	15,719,385	1,852,364	0	17,571,749
Less accumulated depreciation for:				
Plant, machinery and equipment	4,123,291	274,759	0	4,398,050
Furniture and fixtures	55,031	4,157	0	59,188
Vehicles	248,379	5,460	0	253,839
Infrastructure	2,164,123	132,623	0	2,296,746
Total accumulated depreciation	6,590,824	416,999	0	7,007,823
Other capital assets, net	9,128,561	1,435,365	0	10,563,926
Business-type activities capital assets, net	\$1,765,259	\$1,435,365	\$ 0	\$1,201,124

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:	
General government	\$ 33,512
Public safety	105,253
Public works	454,340
Culture and recreation	89,003
Total depreciation expense for governmental activities	<u>\$682,108</u>

Business-Type Activities:

Water	\$158,784
Sewer	258,215
Total depreciation expense for business-type activities	<u>417,000</u>

NOTE 3. OTHER NOTES

3.A. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by Nationwide Retirement Solutions. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement death or unforeseeable emergency. Contributions to the plan are recorded on the City's books as current salaries expenditures. All assets and income of the plan are held in trust by the plan administrator for the exclusive benefit of the participants and their beneficiaries. The City does not take an active role in the managing the plan assets. Therefore, in accordance with GASB Statement No. 32, the deferred compensation plan is not reported in the City's financial statements.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.13. DEFINED BENEFIT PENSION PLAN

Plan Description: The City's defined benefit pension plan for regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The City's policemen are included in the group of IMRF plan members. The City's policemen are not covered by any separate pension plans. The City's firemen are all volunteers and as such are not covered by IMR_F or any separate pension plans. The City's plan is affiliated with the Illinois Municipal Retirement Fund (111/IRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. [MEF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org/.

Funding Policy: As set by statute, the City's regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The City's employer contribution rate for calendar year 2011 was 10.85% of annual covered payroll. The City also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the ilviRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost: For fiscal year ending December 31, 2011, the City's annual pension cost of \$116,545 for the regular plan was equal to the City's required and actual contributions.

THREE-YEAR TREND INFORMATION for the REGULAR PLAN

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/11	\$116,545	100%	\$0
12/31/10	114,534	100%	0
12/31/09	99,955	100%	0

The required contribution for 2011 was determined as part of the December 31, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2009, included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of the City's regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The City regular plan's unfunded actuarial accrued liability at December 31, 2009 is being amortized as a level percentage of projected payroll on an open 30 year basis.

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the regular plan was 84.34 percent funded. The actuarial accrued liability for benefits was \$3,647,848 and the actuarial value of assets was \$3,076,505, resulting in an underfunded actuarial accrued liability (UAAL) of \$571,343. The covered payroll for calendar year 2011 (annual payroll of active employees covered by the plan) was \$1,074,150 and the ratio of the UAAL to the covered payroll was 53 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.C. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters.

The City manages these various risks of loss as follows:

<i>Type of Loss</i>	<i>Method Managed</i>	<i>Risk of Loss Retain</i>
a. Torts, errors, and omissions	Membership in Risk Management Pool	None
b. Workers compensation, health and life	Membership in Risk Management Pool	None
c. Physical property loss and natural disasters	Membership in Risk Management Pool	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past nine fiscal years.

3.D. MOTOR FUEL TAX ALLOTMENT

Under current procedures, the allotments of the City are being received from the State of Illinois each month. These allotments, however, may be expended only for specific projects that have been approved each month by the Department of Transportation, State of Illinois.

3.E. REVENUES DUE FROM STATE AND COUNTY GOVERNMENTS

The following is a breakdown of the amounts due from the State and County governments in the government-wide financial statements at April 30, 2012:

<u>Douglas County:</u>	
Property taxes	\$1,954,464
Police fines	<u>1,041</u>
	<u>\$1,955,505</u>
 <u>State of Illinois:</u>	
Sales tax	\$217,997
Home rule sales tax	85,612
Income tax	189,919
Sales tax — TIF	176,075
Corporate pers. repl. tax	6,460
Motor Fuel Tax	8,697
 Total	 <u>\$680,760</u>

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)

April 30, 2012

3.F. EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended April 30, 2012, the City did not have any expenditure over the legal appropriation limits.

3.G. LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

The following is a summary of the City's long-term debt transactions for the year ended April 30, 2012:

	Balance	Balance	Balance	Balance	Amounts
	May 1, 2011	Additions	Reductions	April 30, 2012	Due Within
					One Year
<i>Governmental activities</i>					
Capital lease obligations:					
The City had no capital lease obligations in the fiscal year ending April 30, 2012					
General obligation bonds (alternate revenue bonds):					
General obligation bonds (Series 2010)	\$500,000	\$ 0	\$ 43,000	\$457,000	\$ 45,000
Tax increment refunding revenue bonds:					
Tax increment refunding rev, bonds (Series 1996)	145,000	0	45,000	100,000	50,000
Other long-term obligations:					
Accrued compensated absences	39,989	91,257	81,305	49,941	49,941
Total governmental activities long-term liabilities	<u>\$684,989</u>	<u>\$ 91,257</u>	<u>\$169,305</u>	<u>\$606,941</u>	<u>\$144,941</u>
<i>Business type activities</i>					
General obligation refunding bonds:					
General obligation refunding bonds (2003A)	\$1,715,000	\$ 0	\$1,715,000	\$ 0	\$ 0
General obligation refunding bonds (20038)	2,245,000	0	2,245,000	0	0
General obligation refunding bonds (2011SW)	0	2,060,000	0	2,060,000	300,000
General obligation refunding bonds (2011WA)	0	1,545,000	0	1,545,000	260,000
Less deferred charge on refunding:	(112,706)	(212,249)	(37,798)	(287,157)	(78,715)
Notes payable:					
Illinois Environmental Protection Agency (WA)	0	688,293	0	688,293	0
Illinois Environmental Protection Agency (SW)	0	160,879	0	160,879	0
• Other long-term obligations:					
Accrued compensated absences	10,943	23,486	20,335	14,094	14,094
Total business-type activities Long-term liabilities	<u>\$3,858,237</u>	<u>\$4,265,409</u>	<u>\$3,942,537</u>	<u>\$4111,109</u>	<u>\$495,379</u>

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.G. LONG-TERM DEBT (continued)
Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The City invests records and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. Arbitrage liabilities are reported as enterprise fund liabilities. At April 30, 2012 arbitrage liabilities were \$0.

Debt outstanding as of April 30, 2012, consisted of the following:

Governmental Funds:

The City issued \$500,000 of double-barreled Motor Fuel Tax bonds for the purpose of completing resurfacing improvements to Main, Sale, Pembroke, Prairie and Daggy Streets. The bonds, dated August 15, 2010, are of \$5,000 denominations and mature on December 1 of each year. The principal and interest is intended to be paid entirely from the revenues of the Motor Fuel Tax Fund. However, should there be insufficient funds available in the Motor Fuel Tax Fund; the City will increase its property tax levy to generate the needed revenue for the bond payments.

Fiscal Year Ending April 30,	Bond Principal	Interest Rate
2013	\$ 46,000	2.55%
2014	47,000	2.70%
2015	49,000	2.85%
2016	50,000	3.00%
2017	52,000	3.15%
2018	54,000	3.30%
2019	56,000	3.45%
2020	58,000	3.60%
Total	\$	

Interest paid on said bonds is payable on June 1 and December 1 in each year until paid. Both principal and interest on said bonds shall be payable in lawful money of the United States of America at the principal office of the First Federal Bank of Tuscola, a division of The First National Bank of Arcola, the paying agent for the bonds, in the City of Tuscola, Illinois.

The bond ordinance requires that moneys held in the Motor Fuel Tax Fund be held in a special reserve account as follows:

<u>Account</u>	<u>Amount</u>	<u>Nature of Authorized Expenditures</u>
Bond and Interest	1/6 of the interest next due and 1/12 of the principle next due.	Restricted for paying principal and interest on bonds.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements – (continued)
April 30, 2012

3.G. LONG-TERM DEBT (continued)

Tax Increment Refunding Revenue Bonds:

A revenue bond issued dated October 1, 1996, was issued to advance refund \$1,810,000 of outstanding principal of the City's 1991 Series Tax Increment Revenue Bonds. The Tax Increment Revenue Bond issue dated July 22, 1991, was issued to cover several projects including land purchase, community building repair, and street repairs. Tax Increment Revenue bonds of \$2,535,000 dated October 1, 1996 are of \$5,000 denomination and mature on December 1 in each of the years and bearing interest as follows:

Fiscal Year <u>Ending April 30.</u>	Bond <u>Principal</u>	Interest Rate
2013	\$ 50,000	5.90%
2014	<u>50,000</u>	5.90%
 Total	 <u>\$100,000</u>	

Interest paid on said bonds is payable on June 1 and December 1 in each year until paid. Both principal and interest on said bonds shall be payable in lawful money of the United States of America at the principal office of The Bank of New York, the paying agent for the bonds, in the City of St. Louis, Missouri.

The Tax Increment Revenue Bond Ordinance requires that moneys held in the Tax Increment Fund be segregated and be held in special reserve accounts as follows:

<u>Account</u>	<u>Amount</u>	<u>Nature of Authorized Expenditures</u>
a) Prior Redevelopment	Sufficient to meet prior Redevelopment Agreements	Restricted for paying prior Redevelopment Agreements
b) Principal and Interest	Sufficient to pay principal and interest due December 1 and June 1, respectively	Restricted for paying principal and interest on bonds
c) Reserve	Maximum Annual Future Debt Service Amount	Restricted for paying principal and interest on bonds
d) Project 1991	Surplus funds	Qualifying project costs

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)
April 30, 2012

3.G. LONG-TERM DEBT (continued)

Annual Debt Service Requirements for Governmental Funds Bonds

Year	2010 Series G. O. Bonds MFT Alt. Rev.		1996 Series Tax Increment Refunding Rev.		Total Debt Service Requirement
	Principal	Interest	Principal	Interest	
2013	\$ 45,000	\$ 13,859	\$ 50,000	\$5,900	\$114,759
2014	46,000	12,779	50,000	2,950	111,729
2015	47,000	11,606			58,606
2016	49,000	10,337			59,337
2017	50,000	8,940			58,940
2018	52,000	7,440			59,440
2019	54,000	5,802			59,802
2020	56,000	4,020			60,020
2021	58,000	2,088			60,088
	<u>\$457,000</u>	<u>\$76,171</u>	<u>\$100,000</u>	<u>\$845,000</u>	<u>\$642,721</u>

Proprietary Funds:

Enterprise Funds (Water and Sewer Funds):

General Obligation Refunding Bonds (Water and Sewer Alternate Revenue):

The City issued \$2,060,000 of double-barreled Sewerage bonds to refund the Sewerage Refunding Revenue Bonds, Series 1993, General Obligation Sewerage Bonds, Series 2000, and Sewerage Refunding Revenue Bonds (A), Series 2003, The bonds, dated December 29, 2011, are of \$5,000 denominations and mature on September 1 of each year, The principal and interest is intended to be paid from the revenues of the Sewer Fund. In addition, the City's sales tax has been pledged as additional means for repayment of these bonds. However, should there be insufficient funds available from the Sewer Fund and sales taxes, the City will increase its property tax levy to generate the needed revenue for the bond payments.

Fiscal Year Ending April 30,	Bond Principal	Interest Rate
2013	\$ 300,000	0.90%
2014	290,000	1.05%
2015	295,000	1.30%
2016	290,000	1.55%
2017	290,000	1.65%
2018	295,000	1.80%
2019	<u>300,000</u>	2.00%
Total	<u>g060 000</u>	

Interest paid on said bonds is payable on March 1 and September 1 in each year until paid. Both principal and interest on said bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of UMB Bank, N.A., the paying agent for the bonds, in Kansas City, Missouri.

CITY OF TUS COLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.G. LONG-TERM DEBT (continued)

The bond ordinance requires that moneys be accumulated in a debt service account in the Sewer Fund as follows:

<u>Account</u>	<u>Amount</u>	<u>Nature of Authorized Expenditures</u>
Bond and Interest	1/6 of the interest next due and 1/12 of the principal next due.	Restricted for paying principal and interest on bonds.

The City issued \$1,545,000 of double-barreled Waterworks bonds to refund the Waterworks Refunding Revenue Bonds, Series 1997 and the Waterworks Refunding Revenue Bond (B), Series 2003. The bonds, dated December 29, 2011, are of \$5,000 denominations and mature on September 1 of each year. The principal and interest is intended to be paid from the revenues of the Water Fund. In addition, the City's sales tax has been pledged as additional means for repayment of these bonds. However, should there be insufficient funds available from the Water Fund and sales taxes, the City will increase its property tax levy to generate the needed revenue for the bond payments.

<u>Fiscal Year Ending April 30,</u>	<u>Bond Principal</u>	<u>Interest Rate</u>
2013	\$ 260,000	0.90%
2014	250,000	1.05%
2015	255,000	1.30%
2016	255,000	1.55%
2017	260,000	1.65%
2018	265,000	1,80%
Total	<u>\$1,545,000</u>	

Interest paid on said bonds is payable on March 1 and September 1 in each year until paid. Both principal and interest on said bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of UMB Bank, N.A., the paying agent for the bonds, in Kansas City, Missouri.

The bond ordinance requires that moneys be accumulated in a debt service account in the Sewer Fund as follows:

<u>Account</u>	<u>Amount</u>	<u>Nature of Authorized Expenditures</u>
Bond and Interest	1/6 of the interest next due and 1/12 of the principal next due.	Restricted for paying principal and interest on bonds.

As a result of the current refunding, the City reduced its total debt service requirements by \$203,943, which results in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$196,342.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)

April 30, 2012

3.G. LONG-TERM DEBT (continued)

Proprietary Funds:

Enterprise Funds (Water and Sewer Funds):

Notes Payable:

The City is currently advancing a note payable to the Illinois Environmental Protection Agency which was obtained in connection with the public water supply project. The note is approved up to \$891,583. \$222,896 of the note will not be repaid as it will be forgiven by the State of Illinois. The note bears 1.25% interest and will have semi-annual repayments for a 20 year term beginning 6 months after the final draw-down is received. The City has drawn down \$688,293 in the Water Fund as of April 30, 2012.

The City is currently advancing a note payable to the Illinois Environmental Protection Agency which was obtained in connection with the wastewater supply system project. The note is approved up to \$239,945. \$59,987 of the note will not be repaid as it will be forgiven by the State of Illinois. The note bears 1.25% interest and will have semi-annual repayments for a 20 year term beginning 6 months after the final draw-down is received. The City has drawn down \$160,879 in the Sewer Fund as of April 30, 2012.

Annual Debt Service Requirements for Enterprise Fund Bonds

Year	2011-WA Series		2011-SW Series		Total Debt Service Requirements
	G.O. Refunding Bonds		G.O. Refunding Bonds		
	Water	Alt. Rev.	Sewer	Alt. Rev.	
	Principal	Interest	Principal	Interest	
2013	\$ 260,000	\$20,123	\$ 300,000	\$ 28,820	\$ 608,943
2014	250,000	17,640	290,000	25,948	583,588
2015	255,000	14,670	295,000	22,508	587,178
2016	255,000	11,036	290,000	18,343	574,379
2017	260,000	6,915	290,000	13,703	570,618
2018	265,000	2,385	295,000	8,655	571,040
2019	0	0	300,000	3,000	303,000
	<u>1,545,000</u>	<u>72,769</u>	<u>2,060,000</u>	<u>120,977</u>	<u>3,798,746</u>
2012 loans still advancing	0	0	0		849,172
Future loan forgiveness	0	0	0	0	282,883
Total	\$1dWaIC)	<u>\$72,769</u>	<u>\$2,060,000</u>	<u>\$120,977</u>	<u>\$4,365,035</u>

3.I. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of April 30, 2012, interfund receivables and payables resulting from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$91,788	
TIP Fund- Barker/Prairie St. TIE 3		\$91,788

Represents start-up costs of a new TIF district, This interfund loan is expected to be repaid as revenues from the district expand. This amount is not expected to be repaid within one year.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)
April 30, 2012

3.J. TAX INCREMENT FINANCING LOAN PROJECT

The City approved and adopted tax increment financing in accordance with the terms of the Tax Increment Allocation Redevelopment Act of the State of Illinois. Accordingly, the City has adopted a redevelopment plan and project and designated a project area in compliance with the conditions of the Act. Under this plan, any increase in Property Tax or Illinois Sales and Use Taxes incurred over the base amount on the date of enactment of the project will be allocated exclusively to the project area for purpose of economic development. These tax increments collected under the Act and paid to the City will be deposited in a special fund designated as "The Special Tax Allocation Fund for the Tuscola Redevelopment Project Area". For the year ending April 30, 2012 the Tax Increment Fund received \$1,371,876 in property taxes and \$527,372 in sales tax.

3.K. TAX INCREMENT FINANCING LOAN INTEREST SUBSIDIES

On May 11, 2009, the City Council approved a 30% TIF interest subsidy for Visual Image Salon for improvements at 103 N Main St on a \$94,000 loan for 5 years. At April 30, 2012, \$921 had been paid on this subsidy

On December 28, 2009, the City Council approved a 30% TIF interest subsidy for Spirits of Tuscola for renovations at 911 E Southline Road for 5 years on approximately \$108,000 in commercial financing. At April 30, 2012, 4,339 had been paid on this subsidy,

On February 8, 2010, the City Council approved a 30% TIF interest subsidy for Mini Community Insurance for renovations at 802 S Main St for 10 years on \$50,000 in commercial financing. At April 30, 2012, nothing had been paid on this subsidy.

On July 12, 2011, the City Council approved a 30% TIF interest subsidy for Greg Bates Automotive for renovations at 1100 S. Washington for 10 years on approximately \$48,500 in commercial financing. At April 30, 2012, nothing had been paid on this subsidy.

3.E TTT? NOTES RECEIVABLE

On December 10, 2007, the City Council approved a \$30,000 grant to Kelsey Furniture Company for roof and facade renovations at the Kelsey Furniture showroom at 106-108 E. Sale Street. On April 12, 2010, the City Council approved a two year extension to the draw period of this loan so that the owner can complete the work. As of April 30, 2012, none of the amount of this loan was disbursed.

On August 24, 2009, the City Council approved a loan for \$4,945 at 3% for 10 years to Jim Nees at Pro Hardware for the purpose of completing improvements to the property at 800 E Southline Road. As of April 30, 2012, none of the amounts of this loan were disbursed.

On March 14, 2011, the City Council approved a loan of \$46,250 at 3% for 10 years to Eddie Boutilier for renovations at 134 W. Sale St. At April 30, 2012, all amounts of this loan was disbursed, and the loan was converted to the repayment phase.

On September 12, 2011, the City Council approved a loan of \$43,834 at 3% for 10 years to Vintage Karma for renovations at 110 W. Sale St. At April 30, 2012, all amounts of this loan was disbursed, and the loan was converted to the repayment phase.

On February 13, 2012, the City Council approved a loan of \$59,500 at 3% for 10 years to Double B Properties for renovations at 132W Sale St. At April 30, 2012, \$13,147 of this loan was disbursed.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)
April 30, 2012

3.M. TAX INCREMENT GRANTS

On December 10, 2007, the City Council approved a \$37,500 grant to Kelsey Furniture Company for roof and façade renovations at the Kelsey Furniture showroom at 106-108 E. Sale Street. As of April 30, 2012, \$6,703 of the amount of this grant was disbursed. On April 12, 2010, the City council approved a two year extension of the draw period on this grant in order for the owner to complete the renovations.

On August 24, 2009, the City Council approved a 50% grant up to \$6,180 grant to Jim Nees/Pro Hardware for purposes of completing renovations at 800 E Southline Rd.. At April 30, 2012, none of the amounts of this grant were disbursed

On December 14, 2009, the City Council approved a 50% grant up to \$6,575 to Darrell Latch for emergency roof repairs at his business at 122 W Sale St. On September 27, 2010, the City Council approved changing the reimbursement rate from 50% to 60% on this project, for a potential increase in the grant amount of \$1,300. At April 30, 2012, \$3,134 of the grant amount was disbursed.

On December 28, 2009, the City Council approved a 50% grant up to \$36,352 to Spirits of Tuscola for renovations at 911 E Southline Rd. At April 30, 2012, \$1953 of the grant amount was disbursed.

On July 12, 2010, the City Council approved a redevelopment agreement with PIVIG Tuscola, LLC for a grant of \$75,000 for demolition of the former Dixie Truckstop building at 1000 E Southline Road. On December 13, 2010, the City Council approved an additional grant of \$12,000 for the demolition of the building to the north side of this property so that the property would be completely clear and ready for development. At April 30, 2012 \$65,560 of the amounts of this grant had been disbursed.

On July 12, 2010, the City Council approved a \$25,000 grant for Greg Bates Automotive for renovations at 1100 S. Washington. At April 30, 2012, nothing had been paid on this grant.

On September 27, 2010, the City Council approved a grant to ARTCO in the amount of \$3,000 for purposes of a business feasibility study for a theatre business at 100-104 W Sale Street. On February 14, 2011, the City Council approved an additional \$500 grant toward this project. At April 30, 2012, \$2,338 of this grant had been disbursed.

On February 14, 2011, the City Council approved a grant to the Tuscola American Legion Post in the amount of \$1,350 for purposes of roof repairs to their building at 209 N Parke Street. At April 30, 2012, all amounts of this grant had been disbursed.

On March 14, 2011, the City Council approved a grant of \$46,250 to Eddie Boutilier for purposes of renovating the building at 134 W. Sale St. for a future computer network store. At April 30, 2012, \$12,801 of the grant amount had been disbursed.

On March 28, 2011, the City Council approved a grant in the amount of \$5,500 to Pamida for purposes of repairs to their access road. At April 30, 2012, all amounts of this grant had been disbursed.

On May 23, 2011, the City Council approved a \$5,000 grant for Douglas County Abstract for renovations at 110 E. Sale St. At April 30, 2012, \$4,975 had been paid on this grant.

On May 23, 2011, the City Council approved a \$22,000 grant for M Five Foods, LLC for renovations at 1109 Tuscola Blvd. At April 30, 2012, \$4,999 had been paid on this grant.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements - (continued)

April 30, 2012

3.M. TAX INCREMENT GRANTS- (continued)

On June 13, 2011, the City Council approved an \$8,000 grant for Alex Ruggieri for renovations at 100 N Main St. At April 30, 2012, all amounts had been paid on this grant.

On September 12, 2011, the City Council approved a \$19,675 grant for Towel! Brothers for renovations at 300 N Parke St. At April 30, 2012, all amounts had been paid on this grant.

On September 12, 2011, the City Council approved a \$552 grant for Hettinger Construction for roof repairs at 119 E Sale Street. At April 30, 2012, all amounts had been paid on this grant.

On September 12, 2011, the City Council approved a \$32,034 grant to Vintage Karma for renovations at 110 W Sale Street. At April 30, 2012, all amounts had been paid on this grant.

On September 12, 2011, the City Council approved a \$50,000 grant to Cecil and Nancy Smith for renovations at 400 S Main Street. At April 30, 2012, \$49,779 of the amount had been paid on this grant.

On February 13, 2012, the City Council approved a \$8,800 grant to ARTCO for architectural study at 103-105 W. Sale Street, At April 30, 2012, nothing had been paid on this grant.

On February 13, 2012, the City Council approved a \$4,000 grant to Hotwire Networks for signage at 134 W. Sale Street. At April 30, 2012, all amounts had been paid on this grant.

On April 9, 2012, the City Council approved a \$22,825 grant to At Home Illinois for roof replacement at 123 W. Sale Street. At April 30, 2012, none of the amounts had been paid on this grant.

On April 9, 2012, the City Council approved a \$10,800 grant to John Br. Phyllis Ehram for demolition of the structure at 115 E. Sale Street. At April 30, 2012, none of the amounts had been paid on this grant,

3.N. TAX INCREMENT OTHER REDEVELOPMENT AGREEMENTS AND COMMITMENTS

On April 28, 2003, the City Council entered into an intergovernmental agreement with the Tuscola Community Unit School District # 301 for the purchase of the property at 400 E Sale St, the former Northward School property. The parties additionally agreed to a vocational or career education grant, as provided in an intergovernmental cooperation agreement dated December 28, 1998, to the school district in the amount of \$150,000 per year for 9 years. The grant payments were scheduled to begin on October 1, 2010. On September 27, 2010, the City Council approved the payment of two of the \$150,000 payments instead of one. On April 30, 2012, \$450,000 or three payments of this grant had been disbursed.

On January 28, 2008, the City Council approved a redevelopment agreement with COROC/Tuscola, L.L.C., operators of the Tanger Outlet Center on Progress Boulevard. This agreement addresses expansion and retail retention needed to maintain this very valuable development. Under the agreement, the City will reimburse COROC/Tuscola, L.L.C. for 50% of their costs for capital improvements to the center and for recruitment and store build-out for any of a listing of top retail tenants, contingent upon agreement to certain lease terms. The maximum amount of reimbursement from the City under this portion of the redevelopment agreement is \$1,000,000. As of April 30, 2012, the City had reimbursed COROC/Tuscola, L.L.C. \$969,123 of the amounts contemplated under this agreement. The remaining

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — ccontinuedi
April 30, 2012

**3.N. TAX INCREMENT OTHER REDEVELOPMENT AGREEMENTS AND COMMITMENTS-
(continued)**

\$30,877 expired on December 31, 2009. Those amounts assisted in the recruitment of top retailers such as Coldwater Creek, Old Navy, Nike, The Children's Place and Stride Rite to the Center.

An additional term of the redevelopment agreement is to extend the annual \$400,000 subsidy approved in the prior redevelopment agreement for an additional 12 years to the current end of the TIT' district life. The terms of this extension is the same as the terms in the original redevelopment agreement on this development.

On September 12, 2005, the City Council approved an agreement with Tuscola Economic Development, Inc.(TEDI) for purposes of the City employing an economic development director position for TEDI as it's annual funding commitment to the organization. The amount of that commitment was not to exceed \$50,000 per year for the following three years. On December 10, 2007, the City Council approved an additional funding commitment under that original agreement of \$25,000 for the original three year period which would be eliding April 30, 2012. On April 14, 2008, the City Council approved an extension to that agreement which would increase the annual funding commitment to \$75,000 per year for an additional three year term. On March 23, 2009, the City Council approved a \$5,000 grant to 'FEDI for purposes of providing assistance to clean up commercial properties within the TIE district. On September 27, 2010, the City Council approved an additional \$40,000 for additional personnel costs for economic development and renewed it's commitment for an additional three fiscal years at an amount not to exceed \$100,000 per year.

On January 25, 2010, the City Council approved a Redevelopment agreement with Tuscola Do-it Best Home Center and owners Jim and Kay Higgins for purposes of assisting in development of a new hardware and home center at 407 E Southline Road. The City will reimburse the developers \$250,000 in the form of a grant for building rehabilitation; an incremental sales tax rebate of 75% of increment for years 1-4 of the business, 60% for years 5-7, and 50% for years 8-10; and an incremental property tax rebate of 100% of the increment for 10 years with the total financial incentive for this redevelopment agreement capped at \$750,000 over the term of the agreement. At April 30, 2012, \$272,603 of this grant had been disbursed.

On February 14, 2011, the City Council approved a professional services agreement **with** Peckham, Guyton, Albers and Viets to begin the process of establishing a new TIE district at Barker and Prairie Streets for purposes of mitigating flood plain area so that a subdivision of single family housing can be built on currently vacant, flood plain encumbered land lots. On October 10, 2011, the City Council entered into a redevelopment agreement with Owen Tucker for the development of the lots in the newly established Barker/Prairie TIE District #3, which included a 50% grant, not to exceed \$750,000, for costs of demolishing the old city sewer plan, site prep, and flood mitigation in the redevelopment district. The agreement also includes a 60% tax rebate for properties developed between Barker, Newkirk, Prairie and Enterprise streets.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.0. CONCENTRATED CREDIT RISK

The City's Water and Sewer Funds are principally engaged in the business of providing water and sewer services to City residents. The Water and Sewer Fund's give credit to customers for water and sewer service provided, with payment terms normal in the industry. The Water and Sewer Fund's ability to collect the amounts due from customers may be affected by general economic fluctuations in the City and the surrounding geographic area. The City has established an allowance for doubtful accounts in the Water Fund of \$4,000 and in the Sewer Fund of \$5,000 as of April 30, 2012.

3.P. SEWER PLANT INFORMATION

The City sewer system received 308,693,373 total gallons at the wastewater plant for calendar year end December 31, 2011. In addition, there were 2,574 users connected to the system and 117,062,000 gallons billed. There were no non-metered users and one user discharging non-domestic or industrial wastes.

3.Q. JOINT VENTURE

On May 10, 1993, the City of Tuscola entered into an intergovernmental agreement with the City of Arcola and Cabot Corporation to construct, maintain and operate a newly constructed water main. The purpose of this water main is to provide the cities, as well as Cabot Corporation and several residences, water from Northern Illinois Water Corporation. This agreement had an original term of 10 years beginning on May 10, 1993, and automatically renews every 5-years. The maximum total term is not to exceed 40 years. Each of the Cities designates 3 representatives to serve on the Tuscola-Arcola Water Main board. The mayor or administrator of the host City serves as the chairperson (with tie breaker voting ability). The host City alternates with each meeting. The capital budgets for construction of this water main were funded 55% by the City of Tuscola and 45% by the City of Arcola, with Cabot Corporation reimbursing 12.5% of the total cost of construction up to a maximum of \$450,000.

Each member agency (the Cities of Arcola and Tuscola) holds an equity interest in the water main capital assets according to each Cities share of water usage for the prior year and the proportion of funding provided by each City during a year. At April 30, 2012 the City of Tuscola's equity interest was 49.57%, or \$4,780, which is reported in the Proprietary Funds as investment in joint venture.

A copy of the separate unaudited financial statements for Tuscola-Arcola Water Main may be obtained from the City of Tuscola, 214 N. Main Street, Tuscola, IL 61953-1486. The responsibility for maintaining books and records for the joint venture is rotated periodically between the Cities.

Summary financial information for the Tuscola-Arcola Water Main as of and for the year ended April 30, 2012 is provided below.

Financial Position as of April 30, 2012

Total assets	<u>\$24,051</u>
Total liabilities	\$ 0
Total equity	<u>24,051</u>
Total liabilities and equity	\$24,051

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Basic Financial Statements — (continued)
April 30, 2012

3.Q. JOINT VENTURE (continued)

Results of Operations for Fiscal Year Ending April 30, 2012

Total revenues	\$178,255
Total expenditures	<u>174,209</u>
Net income (loss)	4,046
Beginning total equity	20 005
Ending total equity	<u>\$24,051</u>

3.R. ECONOMIC DEPENDENCY

The City of Tuscola receives its income primarily from local property taxes and state sales tax. There are a few large businesses that provide the City of Tuscola a significant amount of this revenue and would negatively impact their operations if they were to close.

3.5. TAX INCREMENT FINANCING DESIGNATED AND EARMARKED FUNDS

Beginning with the year ending April 30, 2000, all TIE funds must have planned uses or must be remitted back to the taxing bodies. The following schedule outlines the City's planned use of its funds on hand.

Sales Tax Funds:

Route 36 Business corridor plans to include private grants and subsidies and public infrastructure improvements	\$500,000
Flood and Environmental mitigation along the Scattering Fork	1,300,000
Future Debt Service	12,289

Property Tax Funds:

Land Improvements; Private Loans, Subsidies, and Grants	2,500,000
Development of Business Centre east of 1-57	1,500,000
Future Debt Service	96,561

3.T. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City does not maintain a retiree healthcare plan. The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you go amount necessary to provide current benefits to retirees. Any participating retired plan members would contribute 100 percent of their premium costs. An implicit rate subsidy exists even though any retirees would contribute 100 percent of their premium because of the pooled aspects of providing health benefit coverage. The subsidy is generated as a result of the basic nature of insurance — one risk group subsidizes another to arrive at a blended premium. In all likelihood, current employees who are young and healthy subsidize older retirees. The City has no unionized workers and contribution requirements can be changed by the City Council at any time.

The City has one retiree included in its healthcare premiums at April 30, 2012 or during the year ending April 30, 2012. As a result, the City's implicit liability is zero or some minimal amount below what is considered material for purposes of this audit report for the year ending April 30, 2012.

Required Supplementary Information

CITY OF TUSCOLA
Tuscola, Illinois

REQUIRED SUPPLEMENTARY INFORMATION
Illinois Municipal Retirement Fund Analysis of Funding Progress
April 30, 2012

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) ---Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
12/31/11	\$3,076,505	\$3,647,848	\$571,343	84.34%	\$1,074,150	53.19%
12/31/10	2,840,183	3,311,660	471,477	85.76%	1,090,803	41.22%
12/31/09	2,936,360	3,464,866	528,506	84.75%	1,118,065	47.27%

On a market value basis, the actuarial value of assets as of December 31, 2011 is \$2,961,231. On a market basis, the funded ratio would be 81.18%.

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis)- General Fund

For the Year Ended April 30, 2012

	<u>Budoeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 451,379	\$ 451,379	\$ 441,878	\$ (9,501)
Sales taxes	1,450,000	1,450,000	1,620,671	170,671
State Income taxes	327,040	327,040	319,994	(7,046)
Replacement taxes	29,580	29,580	35,303	5,723
Fines and fees	30,000	30,000	29,998	(2)
Rent	9,000	9,000	10,200	1,200
Licenses and permits	24,500	24,500	19,286	(5,214)
Grant Income	39,195	39,195	31,371	(7,824)
Franchise fees	28,000	28,000	28,012	12
Fire Insurance	6,500	6,500	13,206	6,706
Pool income	50,400	50,400	66,531	16,131
Interest income	8,600	8,600	2,245	(6,355)
Miscellaneous	11,850	11,850	18,570	6,720
Total revenues	2,466,044	2,466,044	2,637,264	171,220
Expenditures:				
General government				
Salaries - city officials and other	280,000	260,000	156,347	103,663
Professional fees	150,000	150,000	16,200	133,800
Office and general expenses	135,000	135,000	17,510	117,490
Insurance	105,000	105,000	53,277	61,723
Publications	15,000	15,000	1,238	13,762
Maintenance	50,000	50,000	4,070	45,930
Utilities	40,000	40,000	15,200	24,800
Animal and bird control	20,000	20,000		20,000
Payroll taxes	55,000	55,000	12,807	42,193
Travel, training and education	10,000	10,000	952	9,048
Employee benefits	100,000	100,000	33,532	66,468
Community activity subsidy	180,000	180,000	83,442	96,558
Substance abuse program	10,000	10,000	1,259	8,741
Miscellaneous	25,000	25,000	7,483	17,517
Total expenditures - general government	1,155,000	1,155,000	403,315	751,685
Public Safety				
Fire protection				
Salaries	300,000	300,000	126,647	173,353
Payroll taxes	60,000	60,000	11,706	48,294
Employee benefits	5,000	5,000	1,793	3,207
Subscriptions	10,000	10,000	1,063	8,937
Special bequests	150,000	150,000	2,731	147,269
Utilities	25,000	25,000	4,694	20,306
Travel, training and education	50,000	50,000	5,745	44,255
Office and general expenses	25,000	26,000	2,424	22,576
Uniforms	10,000	10,000	596	9,404
Repairs and maintenance	285,000	285,000	18,270	266,730
Supplies and pads	100,000	100,000	16,884	83,116
Fire prevention	5,000	5,000	891	4,109
Miscellaneous	5,000	5,000	567	4,433
Total expenditures - fire protection	1,030,000	1,030,000	194,011	835,989

(continued)

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis)- General Fund

For the Year Ended April 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Expenditures: (continued)</u>				
<u>Public Safety (continued)</u>				
<u>Police protection</u>				
Salaries	\$ 550,000	\$ 550,000	\$ 375,565	\$ 174,435
Payroll taxes	15,000	15,000	8,267	6,733
Employee benefits	225,000	225,000	112,924	112,076
Communications	20,000	20,000	8,994	11,006
Office and general expenses	25,000	25,000	2,711	22,289
Uniforms	20,000	20,000	680	19,320
Repairs and maintenance	235,000	235,000	46,965	186,035
Utilities	20,000	20,000	5,660	14,340
Subscriptions	15,000	15,000	95	14,905
Travel, training and education	15,000	15,000	1,647	13,353
Drug fund	100,000	100,000	1,870	98,130
K-9 unit	20,000	20,000		20,000
Miscellaneous	10,000	10,000	4,964	5,036
Total expenditures - police protection	1,270,000	1,270,000	572,342	697,658
<u>Building Inspection</u>				
Salaries	85,000	85,000	35,557	49,443
Payroll taxes	11,000	11,000	3,415	7,585
Employee benefits	30,000	30,000	17,547	12,454
Insurance	500	500	50	450
Office and general expenses	20,000	20,000	2,410	17,590
Travel, training and education	10,000	10,000	124	9,876
Professional fees	45,000	45,000		45,000
Repairs and maintenance	45,000	45,000	2,084	42,916
Miscellaneous	5,000	5,000	25	4,975
Total expenditures - building inspection	251,500	251,500	61,212	190,268
<u>ESDA</u>				
Communications	5,000	5,000	1,917	3,083
Travel, training and education	10,000	10,000		10,000
Supplies and parts	15,000	15,000		15,000
Repairs and maintenance	15,000	15,000	3,380	11,620
Miscellaneous	15,000	15,000		15,000
Total expenditures - ESDA	60,000	60,000	5,297	54,703
Total expenditures - public safety	2,611,500	2,611,500	832,862	1,778,638
<u>Public Works</u>				
<u>Streets and Alloys</u>				
Salaries	450,000	450,000	187,660	262,340
Payroll taxes	105,000	105,000	17,047	87,953
Employee benefits	220,000	220,000	75,842	144,158
Communications	5,000	5,000	800	4,200
Travel, training and education	5,000	5,000	377	4,623
Vehicle fuel	50,000	50,000	19,339	30,661
Vehicle maintenance	150,000	150,000	18,916	131,084
Utilities	150,000	150,000	44,938	105,062
Small equipment	52,500	62,500	934	51,566

(continued)

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis)- General Fund

For the Year Ended April 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<u>Expenditures: (continued)</u>				
<u>Public Works (continued)</u>				
<u>Streets and Alleys (continued)</u>				
Supplies and parts	\$ 20,000	\$ 20,000	\$ 3,692	\$ 16,408
Repairs and maintenance	300,000	300,000	1,808	298,192
Street, alley and curb maintenance	150,000	150,000	26,166	123,834
Sidewalks	25,000	25,000		25,000
Miscellaneous	5,000	5,000	84	4,916
Total expenditures - streets and alleys	1,687,500	1,687,500	397,502	1,289,998
<u>Public Works (continued)</u>				
<u>Municipal Building</u>				
Salaries	12,000	12,000		12,000
Payroll taxes	6,000	6,000		6,000
Employee benefits	10,000	10,000	-	10,000
Insurance	100,000	100,000	49,127	50,873
Communications	5,000	5,000		5,000
Leases	10,000	10,000	2,561	7,439
Utilities	50,000	50,000	17,552	32,448
Real estate taxes - drainage	10,000	10,000	374	9,626
Vending	5,000	5,000	839	4,161
Supplies and parts	40,000	40,000	4,300	35,700
Repairs and maintenance	190,000	190,000	12,725	177,275
Miscellaneous	5,000	5,000	-	5,000
Total expenditures - municipal building	443,000	443,000	87,478	355,622
Total expenditures - public works	2,130,500	2,130,500	484,980	1,645,520
<u>Culture and Recreation</u>				
<u>Park</u>				
Salaries	135,000	136,000	58,591	76,409
Payroll taxes	11,000	11,000	4,408	6,592
Employee benefits	60,000	60,000	17,242	42,758
Repairs and maintenance	120,000	120,000	15,050	104,950
Communications	5,000	5,000	409	4,591
Travel, training and education	5,000	5,000	60	4,940
Utilities	50,000	50,000	11,177	38,823
Supplies and parts	41,500	41,500	3,832	37,668
Advertising	-	-	-	-
Miscellaneous	40,000	40,000	28	39,972
Total expenditures - park	467,500	467,500	110,798	356,702
<u>Pool</u>				
Salaries	85,000	85,000	55,952	29,048
Payroll taxes	15,000	15,000	5,832	9,168
Supplies	90,000	90,000	16,001	73,999
Repairs and maintenance	95,000	95,000	10,984	84,016
Advertising	10,000	10,000	90	9,910
Communications	5,000	6,000	410	4,590
Training	5,000	5,000	1,480	3,520

(continued)

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis)- General Fund

For the Year Ended April 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Expenditures: (continued)</u>				
<u>Culture and Recreation (continued)</u>				
<u>Pool (continued)</u>				
Utilities	\$ 50,000	\$ 50,000	\$ 16,478	\$ 33,522
Miscellaneous	20,000	20,000	310	19,690
Total expenditures - pool	375,000	375,000	107,537	267,463
Total expenditures - culture and recreation	842,500	842,500	218,335	624,165
<u>Development</u>				
Economic development	5,000,000	5,000,000	1,780	4,998,220
Total expenditures - development	5,000,000	5,000,000	1,780	4,998,220
<u>Capital Outlay</u>				
General government	200,000	200,000		200,000
Fire protection	1,000,000	1,000,000	-	1,000,000
Police protection	100,000	100,000	44,617	55,383
Building inspection	50,000	50,000	✓	50,000
Streets and alleys	500,000	500,000	248,983	251,017
Municipal building	100,000	100,000	-	100,000
ESDA	100,000	100,000	-	100,000
Pail<	150,000	150,000	55,743	94,257
Pool	1,500,000	1,500,000	11,800	1,488,200
Total expenditures - capital outlay	3,700,000	3,700,000	361,144	3,338,856
Total expenditures	15,439,500	15,439,500	2,302,416	13,137,084
Excess (deficiency) of revenues over (under) expenditures	(12,973,456)	(12,973,456)	334,848	(12,965,863)
Fund balances - beginning	29,699,662	29,699,662	2,057,171	
Fund balances - ending	\$ 16,726,206	\$ 16,726,206	\$ 2,392,019	L 12,915,863)
Fund balances, ending - budgetary basis			\$ 2,392,019	
Accrual Adjustments				
Revenues			93,810	
Expenditures			13,140	
Net			106,950	
Other financing sources (uses)			-	
Beginning fund balance adjustment to GAAP basis			581,470	
Fund balance, ending - GAAP basis			\$ 3,080,439	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison - Tax Increment Financing Fund
For the Year Ended April .30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,285,000	\$ 1,285,000	\$1,371,876	\$ 86,876
Replacement taxes				-
Income taxes	-			-
Sales taxes	279,000	279,000	329,021	50,021
Sates taxes - city	235,000	235,000	197,273	(37,727)
Motor fuel tax	-			
Fines and fees				
Memorial funds				
interest income	38,500	38,500	21,989	(16,511)
Miscellaneous	500	500		(500)
Total revenues	1,838,000	1,838,000	1 920,159	82,159
Expenditures:				
Current				
General government				-
Public safety				-
Public works				-
Culture and recreation	-			-
Development	20,897,000	20,897,000	1,906,174	18,990,826
Debt service				-
Principal	650,000	650,000	45,000	605,000
Interest expense and fiscal charges	225,000	225,000	8,555	216,445
Capital outlay	3,500,000	3,500,000	85,983	3,414,017
Total expenditures	25,272,000	25,272,000	2,045,712	23,226,288
Excess (deficiency) of revenues over (under) expenditures	(23,434,000)	(23,434,000)	(125,553)	(23,144,129)
Other financing sources (uses):				
Bond proceeds				
Net change in fund balances	(23,434,000)	(23,434,000)	(125,553)	(23,144,129)
Fund balances - beginning	(61,967,682)	(61,967,682)	2,222,409	
Fund balances - ending	1(85,401,682)	1585,40:168)	\$2,096,856	\$ (23,144,129)
Fund balances, ending - budgetary basis			<u>\$2,096,856</u>	
Accrual Adjustments				
Revenues			11,676	
Expenditures			(14,282)	
Net			(2,606)	
Other financing sources (uses)			-	
Beginning fund balance adjustment to GAAP basis			<u>148,503</u>	
Fund balance, ending - GMP basis			<u>\$2,242,753</u>	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetant Basis) - Motor Fuel Tax Fund

For the Year Ended April 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property taxes	\$	\$	\$ -	\$
Replacement taxes				
Income taxes				
Sales taxes				
Sales taxes - city	-		-	"
Motor fuel tax	106,400	106,400	130,275	23,875
Fines and fees			-	-
Memorial funds			-	
interest income	1,000	1,000	230	(770)
Miscellaneous	-		210	210
Total revenues	107,400	107,400	130,714	23,314
<u>Expenditures:</u>				
Current				
General government				
Public safety				-
Public works	250,000	250,000	67,009	192,991
Culture and recreation	-			"
Development				
Debt service				
Principal	200,000	200,000	43,000	157,000
Interest expense and fiscal charges	150,000	150,000	18,780	131,220
Capital outlay	1,500,000	1,500,000	146,387	1,353,613
Total expenditures	2,100,000	2,100,000	265,175	1,834,825
Excess (deficiency) of revenues over (under) expenditures	(1,992,600)	(1,992,600)	(134,461)	(1,811,511)
<u>Other financing sources (uses):</u>				
Bond proceeds	500,000	500,000		500,000
Net change in fund balances	(1,492,600)	(1,492,600)	(134,461)	(1,311,511)
Fund balances - beginning	5,085,859	5,085,859	172,084	
Fund balances ending	\$ 3,093,259	\$ 3,093,259	\$ 37,623	\$ (1,811,511)
Fund balances, ending budgetary basis			\$ 37,623	
Accrual Adjustments				
Revenues			(483)	
Expenditures			(275,692)	
Net			(276,175)	
Other financing sources (uses)				
Beginning fund balance adjustment to GAAP basis			85,009	
Fund balance, ending GAAP basis			<u>154,448</u>	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis) - Tourism Fund

For the Year Ended April 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes		-	\$	
Replacement taxes				
Income taxes				
Sales taxes				
Sales taxes - city	150,000	150,000	170,310	20,310
Motor fuel tax			-	
Fines and fees			-	
Memorial funds			-	
Interest Income	500	500	101	(399)
Grant income	1,500	1,500	345	(1,155)
Miscellaneous	500	500	4,587	4,087
Total revenues	152,500	152,500	175,342	22,842
Expenditures:				
Current				
General government				
Public safety				
Public works			-	
Culture and recreation	-	-	-	-
Development	752,000	752,000	155,525	596,475
Debt service				
Principal				
Interest expense and fiscal charges				150,000
Capital outlay	150,000	150,000		150,000
Total expenditures	902,000	902,000	155,525	746,475
Excess (deficiency) of revenues over (under) expenditures	(749,500)	(749,500)	19,817	(723,633)
Fund balances - beginning	(1,716,566)	(1,716,566)	130,825	
Fund balances - ending		6,066	\$ 150,642	
Fund balances, ending - budgetary basis			\$ 150,642	
Accrual Adjustments				
Revenues			(9,476)	
Expenditures			(16,599)	
Net			(26,075)	
Other financing sources (uses)				
Beginning fund balance adjustment to GAAP basis			58,617	
Fund balance, ending - GAAP basis			\$ 183,084	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA

Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis) - Library Fund

For the Year Ended April 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 122,509	\$ 122,509	\$ 119,846	\$ (2,663)
Replacement taxes	9,500	9,500	9,025	(475)
Income taxes	-	-	-	-
Sales taxes	-	-	-	-
Sales taxes - city	-	-	-	-
Motor fuel tax	-	-	-	-
Fines and fees	8,000	8,000	7,004	(996)
Memorial funds	500	500		(500)
Interest income	100	100	52	(48)
Grant income	4,500	4,500	7,152	2,662
Miscellaneous	500	500	1,738	1,238
Total revenues	145,609	145,609	144,817	(792)
Expenditures:				
Current				
General government				
Public safety				
Public works	-	-		-
Culture and recreation	538,242	538,500	139,719	398,781
Development	-	-		-
Debt service				
Principal				
Interest expense and fiscal charges				
Capital outlay	100,000	99,500		99,500
Total expenditures	638,242	638,000	139,719	498,281
Excess (deficiency) of revenues over (under) expenditures	(492,633)	(492,391)	5,098	(499,073)
Fund balances - beginning	(365,503)	(365,503)	32,366	
Fund balances - ending	\$ 8,136	\$ (857,894)	\$ 37,464	\$ (499,073)
Fund balances, ending - budgetary basis			\$ 37,464	
Accrual Adjustments				
Revenues			65	
Expenditures			(1,082)	
Net			(1,017)	
Other financing sources (uses)				
Beginning fund balance adjustment to GAAP basis			(1,123)	
Fund balance, ending - GAAP basis			\$ 35,324	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA
Tuscola, Illinois

Budgetary Comparison Schedule (Budgetary Basis) - Tuscola Economic Development, Inc
For the Year Ended April 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes				
Replacement taxes				
Income taxes				
Sales taxes				
Sales taxes - city				
Motor fuel tax				
Fines and fees				
Memorial funds			-	
Interest income	100	100	27	(73)
Grant income	100,000	100,000	100,000	
Miscellaneous	55,900	55,900	55,400	(500)
Total revenues	156,000	156,000	155,427	(573)
Expenditures:				
Current				
General government				
Public safety				
Public works				
Culture and recreation	-	-		
Development	154,690	154,690	141,114	13,576
Debt service	-	-		
Principal				
Interest expense and fiscal charges				
Capital outlay				
Total expenditures	154,690	154,690	141,114	13,576
Excess (deficiency) of revenues over (under) expenditures	1,310	1,310	14,313	(14,149)
beginning balances - beginning	32,344	32,344	32,344	
ending balances - ending	33,654	\$ 33,654	\$ 46,657	\$(14,149)
Fund balances, ending - budgetary basis			<u>\$ 46,657</u>	
Accrual Adjustments				
Revenues				
Expenditures				
Net				
Other financing sources (uses)			-	
Beginning fund balance adjustment to GAAP basis			-	
Fund balance, ending - GAAP basis			<u>\$ 46,657</u>	

The notes to budgetary comparison schedules are in integral part of this statement.

CITY OF TUSCOLA
Tuscola, Illinois

Notes to Budgetary Comparison Schedules
April 30, 2012

Budget:

The City Council prepares its annual operating budget under the provisions of the Illinois Municipal Budget Law. In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to the end of the first quarter of each fiscal year, the mayor submits to the City Council a proposed operating budget for the year commencing on May 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain citizen comments, At least one public hearing must be held no later than 10 days prior to final approval of the budget.
- c. Prior to July 31 the appropriations budget is legally enacted through passage of an ordinance. The appropriations ordinance budget was adopted on July 11, 2011.
- d. The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The budget was amended during the fiscal year, but the total expenditures per department did not change.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds,
- f, Budgets for General and Special Revenue Funds, are adopted on a cash basis and lapse at year end.

The legal level of control at which expenditures may not legally exceed appropriations is the fund.

SINGLE AUDIT SECTION

CITY OF TUSCOLA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended April 30, 2012

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	<u>Expenditures</u>
U.S. Department of Energy			
Passed-through Illinois Department of Commerce and Economic Opportunity:			
ARRA - State Energy Program	81.041	09-462018	\$ 408,000
Subtotal State Energy Program			<u>408,000</u>
Total U.S. Department of Energy			<u>403,000</u>
U.S. Environmental Protection Agency			
Passed-through Illinois Environmental Protection Agency/ Bureau of Water:			
Capitalization Grants for Clean Water State Revolving Funds	06.458	L17-4835	13,000
Capitalization Grants for Clean Water State Revolving Funds	66.458	L17-3758	596,985
Capitalization Grants for Clean Water State Revolving Funds	66.458	L17-3671	<u>152,687</u>
Subtotal Capitalization Grants for Clean Water State Revolving Funds			<u>762,672</u>
Total U.S. Environmental Protection Agency			<u>762,672</u>
Total expenditures of federal awards			<u><u>\$ 1,170,672</u></u>

Notes:

Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Tuscola under programs of the federal government for the year ended April 30, 2012. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Tuscola, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Tuscola.

Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement,

CITY OF TUSCOLA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended April 30, an

None reported,

BRAY, DRAKE, LILES & RICHARDSON LLP
Certified Public Accountants

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JAMES P. JEIRAY, CPA (Retired)

October 1, 2012

Honorable Mayor and
City Council
City of Tuscola
Tuscola, Illinois

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tuscola as of and for the year ended April 30, 2012, which collectively comprise the City of Tuscola's basic financial statements and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States,

Internal Control over Financial Reporting

Management of the City of Tuscola is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Tuscola's internal control over financial reporting as a basis for designing our audit procedures 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 of Tuscola's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tuscola's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tuscola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A. L. Liod, Zga

BRAY, DRAKE, LILES & RICHARDSON LLP

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JAMES P. DRAY, CPA (Retired)

October 1, 2012

Honorable Mayor and
City Council
City of Tuscola
Tuscola, Illinois

**Independent Auditor's Report On Compliance With Requirements That Could Have
A Direct And Material Effect On Each Major Program And On Internal Control
Over Compliance In Accordance With OIVIB Circular A-133**

Compliance

We have audited the City of Tuscola's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Tuscola's major federal programs for the year ended April 30, 2012. The City of Tuscola's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Tuscola's management. Our responsibility is to express an opinion on the City of Tuscola's compliance based on our audit.

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

In our opinion, the City of Tuscola complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2012.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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BRAY, DRAKE, LILES & RICHARDSON LLP

CITY OF TUSCOLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended April 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Tuscola,
2. No instances of noncompliance material to the financial statements of the City of Tuscola were disclosed during the audit
3. The auditor's report on compliance for the major federal award programs for the City of Tuscola expresses an unqualified opinion on all major federal programs.
4. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
5. The programs tested as major programs were: ARRA — State Energy Program (CFDA# 81.041); Capitalization Grants for Clean Water State Revolving Funds (CFDA# 66.458).
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. City of Tuscola was determined to not be a low risk auditee.

B. FINDINGS FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Supplementary Information

CITY OF TUSCOLA

Tuscola, Illinois

Assessed Valuations Tax Rates Taxes Extended and Collected

April 30, 2012

Tax Levy Year	2011	2010	2009	2008	2007
Equalized Assessed Valuation (not including TIE Districts)	<u>\$ 57,642,615</u>	<u>\$ 59,002,898</u>	<u>\$ 56,112,673</u>	<u>\$ 54,325,162</u>	<u>\$ 52,645,934</u>
<u>Tax Rates</u>					
(Per \$100 Equalized Assessed Valuation)					
General corporate	\$ 0.1303	\$ 0.1265	\$ 0.1310	\$ 0.1289	\$ 0.1288
Audit	0.0094	0.0091	0.0094	0.0093	0.0095
ESDA	0.0058	0.0056	0.0057	0.0056	0.0057
Liability insurance	0.0764	0.0741	0.0767	0.0755	0.0779
Social security	0.0577	0.0560	0.0580	0.0571	0.0589
Eire protection	0.1396	0.1355	0.1403	0.1381	0.1321
Parks	0.0633	0.0614	0.0636	0.0626	0.0646
Police protection	0.1285	0.1247	0.1291	0.1271	0.1311
IMRE	0.0966	0.0937	0.0970	0.0955	0.0855
Library	0.2140	0.2077	0.2151	0.2117	0.1995
Workmans compensation	0.0430	0.0417	0.0431	0.0424	0.0437
Total Tax Rate	<u>\$ 0.9646</u>	<u>0.9360</u>	<u>0.9690</u>	<u>\$ 0.9538</u>	<u>0.9373</u>
Equalized Assessed Valuation - TIF Districts only	<u>\$ 17,799,199</u>	<u>\$ 18,166,472</u>	<u>\$ 17,288,303</u>	<u>\$ 16,577,169</u>	<u>\$ 16,145,752</u>
TIF Districts	<u>\$ 7,7363</u>	<u>\$ 7,5733</u>	<u>\$ 7,4256</u>	<u>\$ 7,3091</u>	<u>\$ 7,1442</u>
<u>Tax Extensions</u>					
General corporate	\$ 75,100	\$ 74,639	\$ 73,508	\$ 70,025	\$ 67,508
Audit	5,418	5,369	5,275	5,052	5,001
ESDA	3,343	3,304	3,198	3,042	3,001
Liability insurance	44,039	43,721	43,038	41,016	41,011
Social security	33,260	33,042	32,545	31,020	31,008
Road and bridge	21,443	21,890	21,884	21,132	21,322
Fire protection	80,469	79,949	78,726	75,023	69,545
Parks	36,486	36,228	35,688	34,008	34,009
Police protection	74,071	73,577	72,441	69,047	69,019
IMRE	55,683	65,286	54,429	51,851	45,012
Library	123,355	122,549	120,698	115,006	105,029
Workmans compensation	24,786	24,604	24,185	23,034	23,006
TIF Districts	1,377,001	1,410,898	1,283,762	1,211,643	1,153,486
Taxes extended - in total	<u>\$ 1,954,464</u>	<u>\$ 1,985,055</u>	<u>\$ 1,849,377</u>	<u>\$ 1,750,929</u>	<u>\$ 1,668,257</u>
<u>Taxes Collected</u>					
General corporate		\$ 73,005	\$ 73,328	\$ 69,958	\$ 67,853
Audit		5,252	5,261	5,047	5,005

(continued)

CITY OF TUSCOLA
Tuscola, Illinois

Assessed Valuations, Tax Rates, Taxes Extended and Collected
April 30, 2011

Tax Levy Year	2011	2010	2009	2008	2007
<u>Taxes Collected (continued)</u>					
Civil defense		3,232	3,191	3,039	3,003
Liability insurance		42,765	42,933	40,976	41,038
Social security		32,319	30,990	30,990	31,029
Road and bridge		21,560	21,823	21,102	21,299
Fire protection		78,200	78,533	74,951	69,592
Park		35,435	35,600	33,975	34,032
Police protection		71,967	72,264	68,981	69,065
IMRF		54,076	42,848	51,831	45,042
Library		119,846	120,424	114,895	105,274
Workmen's compensation		24,066	24,125	23,012	23,022
TIF Districts		1,371,876	1,263,600	1,212,494	1,155,437
Taxes collected		\$ 1,933,599	\$ 1,815,921	\$ 1,751,249	\$ 1,670,691
<u>Percentage of Extensions</u>					
Collected	0,00%	97.41%	98.19%	100.02%	100.15%