

VILLAGE OF SHERMAN, ILLINOIS

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Year Ended April 30, 2010



VILLAGE OF SHERMAN, ILLINOIS
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3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Village of Sherman, Illinois
Sherman, Illinois

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities and each major fund of Village of Sherman, Illinois, as of and for the year ended April 30, 2010 which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Sherman, Illinois' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 and each major fund of the Village of Sherman, Illinois, as of April 30, 2010, 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.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Sherman, Illinois' basic financial statements. The supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as whole.

A handwritten signature in cursive script, appearing to read "Sibich UP".

Springfield, Illinois
July 14, 2011

VILLAGE OF SHERMAN, ILLINOIS

STATEMENT OF NET ASSETS

April 30, 2010

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 732,937	\$ 209,156	\$ 942,093
Investments	2,329,609	177,002	2,506,611
Property tax receivable	1,096,804	-	1,096,804
Other receivables	140,473	-	140,473
Due from (to) other funds	39,339	(39,339)	-
Restricted assets:			
Cash and cash equivalents	-	187,110	187,110
Total current assets	<u>4,339,162</u>	<u>533,929</u>	<u>4,873,091</u>
Capital Assets:			
Land	50,000	-	50,000
Other capital assets, net of accumulated depreciation	<u>1,843,572</u>	<u>1,117,573</u>	<u>2,961,145</u>
Total capital assets	<u>1,893,572</u>	<u>1,117,573</u>	<u>3,011,145</u>
Total assets	<u>6,232,734</u>	<u>1,651,502</u>	<u>7,884,236</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	45,752	15,305	61,057
Accrued interest payable	32,763	-	32,763
Deferred revenue	1,096,804	-	1,096,804
Compensated absences payable, current	16,661	3,808	20,469
Capital leases, current	13,576	-	13,576
G.O. bonds payable, current	34,200	55,800	90,000
TIF bonds payable, current	279,840	-	279,840
Total current liabilities	<u>1,519,596</u>	<u>74,913</u>	<u>1,594,509</u>
Noncurrent Liabilities			
Compensated absences payable, noncurrent	19,718	5,501	25,219
Capital leases, noncurrent	18,636	-	18,636
G.O. bonds payable, noncurrent	114,000	186,000	300,000
TIF bonds payable, noncurrent	1,236,000	-	1,236,000
TIF notes payable, noncurrent	355,258	-	355,258
Total noncurrent liabilities	<u>1,743,612</u>	<u>191,501</u>	<u>1,935,113</u>
Total liabilities	<u>3,263,208</u>	<u>266,414</u>	<u>3,529,622</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,861,360	1,117,573	2,978,933
Restricted for maintenance of roadways	78,466	-	78,466
Restricted for economic development	2,818,533	-	2,818,533
Restricted for capital projects	-	187,110	187,110
Restricted for debt service	197,739	-	197,739
Unrestricted	<u>(1,986,572)</u>	<u>80,405</u>	<u>(1,906,167)</u>
Total net assets	<u>\$ 2,969,526</u>	<u>\$ 1,385,088</u>	<u>\$ 4,354,614</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN, ILLINOIS

STATEMENT OF ACTIVITIES

For the Year Ended April 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 273,750	\$ 53,671	\$ -	\$ -
Public safety	451,826	36,909	-	28,052
Streets and public works	309,856	-	-	-
Culture and recreation	12,438	-	-	-
Economic Development	767,228	-	-	-
Interest on long-term debt	120,016	-	-	-
Total governmental activities	1,935,114	90,580	-	28,052
Business-type activities	386,029	421,688	-	-
Total primary government	\$ 2,321,143	\$ 512,268	\$ -	\$ 28,052

General revenues:
 Property taxes
 Sales and use tax
 Intergovernmental
 Investment income
 Other revenue
 Total general revenues

Change in net assets
 Net assets - beginning
 Prior Period Adjustments
 Net assets - beginning restated
 Net assets - ending

The accompanying notes are an integral part of these financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (220,079)	\$ -	\$ (220,079)
(386,865)	-	(386,865)
(309,856)	-	(309,856)
(12,438)	-	(12,438)
(767,228)	-	(767,228)
(120,016)	-	(120,016)
(1,816,482)	-	(1,816,482)
-	35,659	35,659
(1,816,482)	35,659	(1,780,823)
1,211,976	-	1,211,976
288,545	-	288,545
300,761	-	300,761
15,255	1,885	17,140
24,417	-	24,417
1,840,954	1,885	1,842,839
24,472	37,544	62,016
2,992,872	1,350,870	4,343,742
(47,818)	(3,326)	(51,144)
2,945,054	1,347,544	4,292,598
\$ 2,969,526	\$ 1,385,088	\$ 4,354,614

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

BALANCE SHEET
GOVERNMENTAL FUNDS

April 30, 2010

	General Fund	Tax Increment Financing Fund	Motor Fuel Tax Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 231,106	\$ 424,796	\$ 77,035	\$ 732,937
Investments	-	2,329,609	-	2,329,609
Property tax receivable	148,447	948,357	-	1,096,804
Other receivables	134,245	-	6,228	140,473
Due from other funds	54,568	92,413	-	146,981
Total assets	<u>\$ 568,366</u>	<u>\$ 3,795,175</u>	<u>\$ 83,263</u>	<u>\$ 4,446,804</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 27,899	\$ 13,056	\$ 4,797	\$ 45,752
Deferred revenue	148,447	948,357	-	1,096,804
Due to other funds	92,413	15,229	-	107,642
Total liabilities	<u>268,759</u>	<u>976,642</u>	<u>4,797</u>	<u>1,250,198</u>
Fund balances:				
Reserved for maintenance of roadways	-	-	78,466	78,466
Reserved for economic development	-	2,818,533	-	2,818,533
Reserved for debt service	197,739	-	-	197,739
Unreserved				
General	101,868	-	-	101,868
Total fund balances	<u>299,607</u>	<u>2,818,533</u>	<u>78,466</u>	<u>3,196,606</u>
Total liabilities and fund balances	<u>\$ 568,366</u>	<u>\$ 3,795,175</u>	<u>\$ 83,263</u>	<u>\$ 4,446,804</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES

April 30, 2010

Reconciliation to Statement of Net Assets

Fund balance - governmental funds \$ 3,196,606

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in the governmental activities of \$2,772,983, net of accumulated
depreciation of \$879,411, are not financial resources, and therefore, are not
reported in the funds. 1,893,572

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

Compensated absences payable	(36,379)
Accrued interest payable	(32,763)
Capital leases, current	(13,576)
G.O. Bond payable, current	(34,200)
TIF Bonds payable, current	(264,840)
Capital leases, noncurrent	(18,636)
G.O. Bond payable, noncurrent	(114,000)
TIF Bonds payable, noncurrent	(1,236,000)
TIF Notes payable, noncurrent	(370,258)
Total long-term liabilities	<u>(2,120,652)</u>

Net assets of governmental activities \$ 2,969,526

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended April 30, 2010

	General Fund	Tax Increment Financing Fund	Motor Fuel Tax Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 189,768	\$ 1,022,208	\$ -	\$ 1,211,976
Sales and use taxes	278,523	10,022	-	288,545
Intergovernmental	228,345	-	72,416	300,761
Licenses and permits	53,671	-	-	53,671
Fines	36,909	-	-	36,909
Investment income	448	14,707	100	15,255
Other revenues	24,417	-	-	24,417
Total revenues	812,081	1,046,937	72,516	1,931,534
EXPENDITURES				
Current:				
General government	153,520	84,927	-	238,447
Public safety	430,755	-	-	430,755
Streets and public works	222,521	-	58,860	281,381
Culture and recreation	10,538	-	-	10,538
Economic Development	-	615,000	-	615,000
Debt service:				
Principal	34,200	95,000	-	129,200
Interest	6,163	81,090	-	87,253
Capital outlay	41,609	152,228	-	193,837
Total expenditures	899,306	1,028,245	58,860	1,986,411
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	(87,225)	18,692	13,656	(54,877)
OTHER FINANCING SOURCES (USES)				
Capital lease proceeds	17,500	-	-	17,500
TIF Note proceeds	-	176,090	-	176,090
Total other financing sources (uses)	17,500	176,090	-	193,590
Net change in fund balances	(69,725)	194,782	13,656	138,713
Fund balance at beginning of year	322,576	2,697,394	62,985	3,082,955
Prior period adjustment	46,756	(73,643)	1,825	(25,062)
Fund balance at beginning of year - restated	369,332	2,623,751	64,810	3,057,893
Fund balance at end of year	\$ 299,607	\$ 2,818,533	\$ 78,466	\$ 3,196,606

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended April 30, 2010

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds \$ 138,713

Amounts reported for governmental activities in the Statement of Activities are different because:

The issuance of long-term debt (e.g. bonds, loans, leases) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Capital debt obligations principal payments	145,488
Lease proceeds	(17,500)
TIF Note proceeds	(176,090)
Accrued interest payable	(32,763)

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 governmental funds:

Compensated absences payable	(1,173)
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	65,915
Depreciation expense	(126,170)

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

Donations of capital assets	28,052
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Change in net assets of governmental activities	\$ 24,472
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

STATEMENT OF NET ASSETS
 PROPRIETARY FUND

April 30, 2010

	<u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 209,156
Investments	177,002
Restricted cash and cash equivalents	<u>187,110</u>
Total current assets	<u>573,268</u>
Noncurrent assets:	
Treatment facility - net of accumulated depreciation	<u>1,117,573</u>
Total noncurrent assets	<u>1,117,573</u>
Total assets	<u>1,690,841</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	15,305
Due to General Fund	39,339
Compensated absences payable - current	3,808
G.O. bonds payable - current	<u>55,800</u>
Total current liabilities	<u>114,252</u>
Noncurrent liabilities:	
Compensated absences payable	5,501
G.O. bonds payable	<u>186,000</u>
Total noncurrent liabilities	<u>191,501</u>
Total liabilities	<u>305,753</u>
Net assets:	
Invested in capital assets, net of related debt	1,117,573
Restricted for capital projects	187,110
Unrestricted	<u>80,405</u>
Total net assets	<u>\$ 1,385,088</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUND

For the Year Ended April 30, 2010

	<u>Sewer Fund</u>
Operating Revenues:	
Charges for services	<u>\$ 421,688</u>
Operating expenses:	
Salaries	93,563
Engineering	5,303
Maintenance and supplies	36,867
Sanitary usage	143,205
Collection fees	12,926
Depreciation	59,835
Utility rebates	2,780
Miscellaneous	<u>21,495</u>
Total operating expenses	<u>375,974</u>
Operating income	<u>45,714</u>
Nonoperating revenue (expense)	
Investment income	1,885
Interest and fees	<u>(10,055)</u>
Total nonoperating revenue (expense)	<u>(8,170)</u>
Change in net assets	<u>37,544</u>
Total net assets, beginning of year	1,350,870
Prior period adjustment	<u>(3,326)</u>
Net assets beginning of year, restated	<u>1,347,544</u>
Total net assets, end of year	<u>\$ 1,385,088</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

For the Year Ended April 30, 2010

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 447,365
Cash paid to suppliers	(194,515)
Cash paid to employees	(93,996)
	<u>158,854</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(9,250)
Principal paid on general obligation bonds	(55,800)
Interest paid on general obligation bonds	(9,745)
Fiscal agent fees on bonds	(310)
	<u>(75,105)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(177,002)
Interest received	1,885
	<u>(175,117)</u>
Net decrease in cash and cash equivalents	(91,368)
Cash, beginning of year	<u>487,634</u>
Cash, end of year	<u><u>\$ 396,266</u></u>
Cash consists of the following:	
Cash and cash equivalents	\$ 209,156
Restricted cash and cash equivalents	187,110
	<u><u>\$ 396,266</u></u>
Reconciliation of operating income (loss) to net cash from operating activities:	
Operating income (loss)	\$ 45,714
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	59,835
Decrease in accounts receivable	25,677
Increase in amount due General Fund	32,016
Decrease in accounts payable	(3,955)
Decrease in compensated absences payable	(433)
Net cash from operating activities	<u><u>\$ 158,854</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS

April 30, 2010

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 5,192
Property tax receivable	<u>125,903</u>
Total assets	<u>\$ 131,095</u>
LIABILITIES	
Deferred revenue	\$ 125,903
Due to bondholders	<u>5,192</u>
Total liabilities	<u>\$ 131,095</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS

April 30, 2010

1. SUMMARY OF ACCOUNTING POLICIES

The basic financial statements of the Village of Sherman, Illinois have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

A. Reporting Entity

The Village of Sherman, Illinois operates under a President-Trustee form of government. All significant activities and organizations on which the Village exercises oversight responsibility have been included in the Village's financial statements for the year ended April 30, 2010.

In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity is based upon the significance of its operational or financial relationship with the primary government.

The Village has determined that no other outside entity meets the above criteria and, therefore, no other entity has been included as a component unit in the Village's financial statements.

B. Government-wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities display information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between governmental and business-type activities. 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.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– Continued

B. Government-wide and Fund Financial Statements – Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund financial statements of the Village 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. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are intended to finance. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. In determining when to recognize intergovernmental revenue (grants and shared revenue), the legal and contractual requirements of the individual programs are used as guidance. There are, however, essentially two based for revenue recognition. In one, monies are virtually unrestricted as to the purpose of expenditure and are nearly irrevocable; therefore, these amounts are recognized as revenue at the time of their receipt or earlier if they meet the criteria of availability. In the other, monies must be expended on the specific purpose or project before any amounts will be paid to the Village; therefore, revenue is recognized based upon the expenditure recorded.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –
Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay current liabilities. The Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for sales taxes collected within 90 days. Also, income taxes have a 120 day availability period in the current year due to delays in distributions from the State of Illinois. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments, are recorded only when payment is due.

Property taxes, sales taxes, licenses and permits, charges for services, fines and forfeits, miscellaneous revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Personal property replacement taxes are considered to be measurable when they have been collected and allocated by the state and are recognized as revenue at that time. All other revenue items are considered to be measurable and available only when cash is received by the Village.

An emphasis is placed on major funds within the government. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

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

The Village reports the following major governmental funds:

The General Fund is the general operating fund of the Village and is used to account for all financial resources except those required to be accounted for in another fund.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Tax Increment Financing Fund is used to account for the activities relating to the Tax Increment Financing Districts.

The Motor Fuel Tax Fund is used to account for motor fuel taxes received and the use of those funds for certain projects.

The Village reports the following major proprietary fund:

The Sewer Fund is used to account for the revenues and expenses related to operating and maintaining the Village's sewer operations.

Additionally, the Village reports the following fund types:

Fiduciary Funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, other governments, or other funds. These include the following fund type: Agency Funds. The Agency Fund is used to account for special deposits for which the Village acts as an agent for all special deposit activity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– Continued

D. 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.

E. Capital Assets

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated capital assets are valued at their estimated fair market value on the date received. 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. Infrastructure assets acquired since May 1, 2004, are recorded at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Vehicles	5 years
Equipment	5 – 10 years
Computers	5 years
Infrastructure	40 years
Sewer plant treatment facilities	40 years

The minimum capitalization amount for buildings is \$100,000, for vehicles is \$15,000, for equipment is \$5,000, for computers is \$2,500, and for infrastructure is \$1,000,000.

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES— Continued

F. Long-Term Debt

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. 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. None of the restricted net assets result from enabling legislation adopted by the Village.
- 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.”

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES– Continued

G. Equity Classification - Continued

Fund Financial Statements

Government fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

H. Use of Estimates

Management of the Village has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the period. Actual results could differ from those estimates.

I. Investments

Investments are stated at fair value based on quoted market prices at April 30, 2010.

J. Compensated Absences

Vested or accumulated vacation leave is accrued when incurred by the Village in the government-wide and proprietary fund financial statements. Vested or accumulated vacation leave of the proprietary fund is recorded as an expense and liability of that fund as the benefits accrued to employees. A liability in the governmental funds is reported only if the benefit has matured.

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Village. Employees are allowed to accumulate two years vacation time. Employees are entitled to all accrued vacation leave upon termination. Sick leave also accrues to full-time employees; however, unused sick leave is not payable upon termination of employment.

VILLAGE OF SHERMAN, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS – Continued

2. CASH AND CASH EQUIVALENTS

The Village’s Board of Trustees have adopted an investment policy to invest in investments allowed by the Illinois Compiled Statutes (ILCS) which authorize the Village to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds.

It is the policy of the Village to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village and conforming to all state and local statutes governing the investment of public funds. The primary objectives of the policy, in order of priority are; conformance with legal requirements, protection of investment, liquidity, and attainment of market rates of return.

A. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Village’s deposits may not be returned to it. To guard against credit risk for deposits with financial institutions the Village’s investment policy requires all deposits with financial institutions in excess of federal depository insurance to be collateralized with collateral held at an independent third party institution in the name of the Village evidenced by a written agreement.

B. Investments

The following table presents the investments in debt securities of the Village as of April 30, 2010 by type of investment.

Investment	Fair Value	Maturity (in years)			
		Less than 1	1-5	6-10	>10
Illinois Funds	\$ 427,047	\$ 427,047	\$ -	\$ -	\$ -

VILLAGE OF SHERMAN, ILLINOIS
NOTES TO FINANCIAL STATEMENTS – Continued

2. CASH AND CASH EQUIVALENTS – Continued

B. Investments – Continued

The Illinois Funds is an external investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, the price for which the investment could be sold. The Illinois Funds Money Market and Prime Fund are rated AAAM by Standard and Poor's.

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The Village's policy limits the investments to securities maturing less than one year from the date of purchase. The reserve funds of the Village may be invested in securities exceeding one year if the maturity of such investments coincide with the expected use of the funds.

The Village limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity by primarily investing in Illinois Funds and certificate of deposits.

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of an outside party. The Village limits its exposure to custodial credit risk by utilizing independent, third party institutions, selected by the Village, to act as custodian for its securities and collateral.

Concentration of credit risk – The Village places no limit on the amount the Village may invest in any one issuer. The Village's investments are in the Illinois Funds and certificate of deposits.

3. PROPERTY TAX CALENDAR

Property tax levy ordinance must be filed in Sangamon County by the last Tuesday in December on the assessed valuation as of January 1. The tax levy becomes an enforceable lien against the property on January 1 of the year following the tax levy year. These taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to the Government units their respective share of the collections.

Taxes levied in one year become due and payable in two installments during the following year. The Sangamon County installments are due June 1 and September 1.

VILLAGE OF SHERMAN, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS – Continued

4. CAPITAL ASSETS

A. Governmental Activities

Capital asset activity for the year ending April 30, 2010 consists of the following:

	<u>Balance</u> <u>May 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>April 30, 2010</u>
Capital assets not being depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Other capital assets				
Buildings	350,502	-	-	350,502
Vehicles	303,119	93,967	10,000	387,086
Equipment	387,473	12,450	-	399,923
Computers	16,476	-	-	16,476
Infrastructure	<u>1,568,996</u>	<u>-</u>	<u>-</u>	<u>1,568,996</u>
Total capital assets	<u>2,676,566</u>	<u>106,417</u>	<u>10,000</u>	<u>2,772,983</u>
Less accumulated depreciation for:				
Buildings	137,369	8,762	-	146,131
Vehicles	241,833	35,015	10,000	266,848
Equipment	230,049	40,373	-	270,422
Computers	6,158	2,795	-	8,953
Infrastructure	<u>147,832</u>	<u>39,225</u>	<u>-</u>	<u>187,057</u>
Total accumulated depreciation	<u>763,241</u>	<u>126,170</u>	<u>10,000</u>	<u>879,411</u>
Total capital assets, net of accumulated depreciation	<u>\$ 1,913,325</u>	<u>\$ (19,753)</u>	<u>\$ -</u>	<u>\$ 1,893,572</u>

VILLAGE OF SHERMAN, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS – Continued

4. CAPITAL ASSETS - Continued

B. Business-type Activities

Capital asset activity for the year ending April 30, 2010 consists of the following:

	<u>Balance</u> <u>May 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>April 30, 2010</u>
Sewer plant treatment facility	\$ 2,359,500	\$ -	\$ -	\$ 2,359,500
Vehicle	16,500	-	-	16,500
Equipment	<u>4,149</u>	<u>9,250</u>	-	<u>13,399</u>
Total capital assets	<u>2,380,149</u>	<u>9,250</u>	-	<u>2,389,399</u>
Less accumulated depreciation for:				
Sewer plant treatment facility	1,191,342	58,987	-	1,250,329
Vehicle	16,500	-	-	16,500
Equipment	<u>4,149</u>	<u>848</u>	-	<u>4,997</u>
Total accumulated depreciation	<u>1,211,991</u>	<u>59,835</u>	-	<u>1,271,826</u>
Total capital assets, net of accumulated depreciation	<u>\$ 1,168,158</u>	<u>\$ (50,585)</u>	<u>\$ -</u>	<u>\$ 1,117,573</u>

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

Governmental activities:	
General government	\$ 33,869
Public safety	21,520
Streets and public works	68,881
Culture and recreation	<u>1,900</u>
Total depreciation expense – governmental activities	<u>\$ 126,170</u>
Business-type activities:	
Sewer	<u>59,835</u>
Total depreciation expense – business-type activities	<u>\$ 59,835</u>