

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF STURGIS	County ST. JOSEPH
Fiscal Year End September 30, 2006	Opinion Date March 8, 2007	Date Audit Report Submitted to State March 28, 2007	

We affirm that:

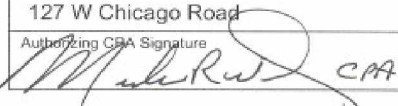
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	No comments and recommendations.	
Other (Describe)		<input checked="" type="checkbox"/>	Report on Compliance and Internal Control - GAS	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.			Telephone Number 269-651-3228 mrwilson1@charter.net	
Street Address 127 W Chicago Road			City Sturgis	State MI
Authorizing CPA Signature  CPA			Printed Name Michael R Wilson	License Number 1101017570

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2006

CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Commission
City of Sturgis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of and for the year ended September 30, 2006, 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 of Sturgis management. We did not audit the financial statements of the Sturgis Hospital Enterprise Fund, which is both a major fund and 40 percent, 30 percent, and 63 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sturgis Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules and retirement system schedules of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sturgis basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007, on our consideration of the City of Sturgis internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Norman J. Paulson, P.C.

March 8, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business</u>		<u>Component</u>
	<u>Activities</u>	<u>Type</u>	<u>Total</u>	<u>Units</u>
		<u>Activities</u>		
ASSETS				
Cash and investments	\$ 7,988,862	\$ 12,742,463	\$20,731,325	\$ 202,766
Receivables, net	292,418	8,887,609	9,180,027	-
Receivables, long-term portion	663,790	1,490,475	2,154,265	-
Internal balances	-	-	-	-
Due from component units	31,454	-	31,454	-
Inventories, prepaid items and other assets	36,776	3,483,265	3,520,041	1,000
Restricted assets	-	4,475,824	4,475,824	-
Capital assets - net	<u>11,172,706</u>	<u>54,963,882</u>	<u>66,136,588</u>	<u>243,201</u>
Total assets	20,186,006	86,043,518	106,229,524	446,967
LIABILITIES				
Accounts payable	381,405	4,088,924	4,470,329	872
Accrued and other liabilities	189,040	2,219,413	2,408,453	2,130
Due to primary government	-	-	-	31,454
Deferred revenue	2,731,627	-	2,731,627	-
Debt obligations:				
Due within one year	111,603	1,292,628	1,404,231	-
Due in more than one year	832,117	20,879,947	21,712,064	-
Compensated absences	<u>746,295</u>	<u>1,113,541</u>	<u>1,859,836</u>	<u>-</u>
Total liabilities	<u>4,992,087</u>	<u>29,594,453</u>	<u>34,586,540</u>	<u>34,456</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,228,986	32,791,307	43,020,293	243,201
Restricted:				
Debt service	-	1,559,417	1,559,417	-
Endowments	874,020	-	874,020	-
Other purposes	-	540,605	540,605	-
Unrestricted	<u>4,090,913</u>	<u>21,557,736</u>	<u>25,648,649</u>	<u>169,310</u>
Total net assets	<u>\$ 15,193,919</u>	<u>\$ 56,449,065</u>	<u>\$71,642,984</u>	<u>\$ 412,511</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 1,055,473	\$ 760,118	\$ -	\$ -
Public safety	3,635,033	77,228	51,117	-
Public works	1,526,225	-	809,629	-
Recreation and cultural	1,918,412	874,601	109,094	-
Unallocated	-	-	-	-
Interest on long-term debt	36,414	-	-	-
Total governmental activities	8,171,557	1,711,947	969,840	-
Business-type activities:				
Hospital	37,675,393	37,012,311	-	435,248
Electric	17,086,466	18,346,575	-	110,867
Sanitary sewer	2,005,749	1,696,666	-	-
Water	1,069,941	1,020,710	-	8,545
Other	1,850,565	1,610,556	-	-
Total business-type activities	59,688,114	59,686,818	-	554,660
Total primary government	<u>\$67,859,671</u>	<u>\$61,398,765</u>	<u>\$ 969,840</u>	<u>\$ 554,660</u>
Component units				
Downtown Development Authority	\$ 98,766	\$ 9,273	\$ 390	\$ -
Housing Development Corporation	-	-	-	-
Total component units	<u>\$ 98,766</u>	<u>\$ 9,273</u>	<u>\$ 390</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Payments in lieu of taxes				
Transfers				
Total general revenues and transfers				
CHANGE IN NET ASSETS				
NET ASSETS - BEGINNING OF YEAR				
NET ASSETS - END OF YEAR				

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (295,355)	\$ -	\$ (295,355)	\$ -
(3,506,688)	-	(3,506,688)	-
(716,596)	-	(716,596)	-
(934,717)	-	(934,717)	-
-	-	-	-
(36,414)	-	(36,414)	-
(5,489,770)	-	(5,489,770)	-
-	(227,834)	(227,834)	-
-	1,370,976	1,370,976	-
-	(309,083)	(309,083)	-
-	(40,686)	(40,686)	-
-	(240,009)	(240,009)	-
-	553,364	553,364	-
(5,489,770)	553,364	(4,936,406)	\$ -
			\$ (89,103)
			-
			(89,103)
2,834,214	-	2,834,214	82,232
1,089,859	-	1,089,859	-
639,276	389,889	1,029,165	-
432,437	249,097	681,534	-
1,399,557	-	1,399,557	-
(334,200)	334,200	-	-
6,061,143	973,186	7,034,329	82,232
571,373	1,526,550	2,097,923	(6,871)
14,622,546	54,922,515	69,545,061	419,382
<u>\$ 15,193,919</u>	<u>\$ 56,449,065</u>	<u>\$71,642,984</u>	<u>\$ 412,511</u>

FUND FINANCIAL STATEMENTS

CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2006

	General Fund	Major Street Fund	Local Street Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 4,358,525	\$ 126,240	\$ 355,335
Investments	-	-	5,233
Receivables			
Accounts	37,260	-	-
Property taxes	84,088	-	-
Special assessments	26,672	22,912	614,206
Interest	-	-	-
Due from other funds	-	-	-
Due from component unit	-	-	-
Due from other governmental units	7,809	111,583	32,055
Prepaid expenses	-	-	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,514,354</u>	<u>\$ 260,735</u>	<u>\$ 1,006,829</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 100,238	\$ 7,588	\$ 5,602
Due to other funds	-	-	-
Accrued expenses	141,580	6,189	4,059
Deferred revenue	<u>2,649,797</u>	<u>22,912</u>	<u>614,206</u>
Total liabilities	2,891,615	36,689	623,867
FUND BALANCE			
Reserved for endowments	-	-	-
Unreserved, undesignated	<u>1,622,739</u>	<u>224,046</u>	<u>382,962</u>
Total fund balance	<u>1,622,739</u>	<u>224,046</u>	<u>382,962</u>
Total liabilities and fund balance	<u>\$ 4,514,354</u>	<u>\$ 260,735</u>	<u>\$ 1,006,829</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 264,767	\$ 225,280	\$ 743,572	\$ 6,073,719
-	-	577,564	582,797
-	-	11,021	48,281
-	-	-	84,088
-	-	-	663,790
-	-	6,035	6,035
-	-	-	-
-	-	31,454	31,454
-	-	-	151,447
-	-	15,319	15,319
-	-	16,237	16,237
<u>\$ 264,767</u>	<u>\$ 225,280</u>	<u>\$ 1,401,202</u>	<u>\$ 7,673,167</u>

\$ -	\$ -	\$ 49,381	\$ 162,809
-	-	-	-
-	-	35,870	187,698
-	-	108,502	3,395,417
-	-	193,753	3,745,924
-	-	874,020	874,020
<u>264,767</u>	<u>225,280</u>	<u>333,429</u>	<u>3,053,223</u>
<u>264,767</u>	<u>225,280</u>	<u>1,207,449</u>	<u>3,927,243</u>
<u>\$ 264,767</u>	<u>\$ 225,280</u>	<u>\$ 1,401,202</u>	<u>\$ 7,673,167</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2006

Total governmental fund balances \$ 3,927,243

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

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

Governmental capital assets	\$ 13,213,367	
Less accumulated depreciation	<u>(3,244,635)</u>	<u>9,968,732</u>

Because the focus of governmental funds is on
short-term financing, some assets will not be
available to pay current expenditures. Those
assets are offset by deferred revenues in the
governmental funds and, therefore, not included
in fund balance.

Deferred special assessments	663,790
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Certain liabilities are not due and payable in
the current period and therefore are not
reported in the funds.

Notes payable	(258,474)
Compensated absences	(746,295)

Internal service funds are used by management
to charge the costs of certain activities to
individual funds. The assets and liabilities
of the internal service funds are reported with
governmental activities.

Net assets of the internal service funds	<u>1,638,923</u>
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Net assets of governmental activities	<u>\$ 15,193,919</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2006**

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 3,988,363	\$ -	\$ 245,408
Special assessments	15,488	-	8,177
Licenses and permits	49,742	-	-
Federal grants	21,545	19,186	-
State grants	5,393	-	-
State shared revenue	1,083,394	585,882	204,561
Charges for services	36,787	-	-
Fines and forfeits	50,854	-	-
Interest income	607,571	-	1,550
Administrative reimbursement	772,230	-	-
Other	<u>102,304</u>	<u>12,427</u>	<u>116</u>
Total revenue	6,733,671	617,495	459,812
EXPENDITURES			
Legislative	35,974	-	-
General government	1,113,324	-	-
Public safety	3,293,271	-	-
Public works	378,659	655,096	761,210
Health and welfare	-	-	-
Recreation and cultural	36,667	-	-
Capital outlay	-	-	-
Debt services	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>4,857,895</u>	<u>655,096</u>	<u>761,210</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,875,776	(37,601)	(301,398)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>(1,784,400)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,784,400)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	91,376	(37,601)	(301,398)
FUND BALANCE - BEGINNING OF YEAR	<u>1,531,363</u>	<u>261,647</u>	<u>684,360</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,622,739</u>	<u>\$ 224,046</u>	<u>\$ 382,962</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 4,233,771
-	-	-	23,665
-	-	19,137	68,879
-	-	-	40,731
-	-	-	5,393
-	-	6,465	1,880,302
-	-	983,909	1,020,696
-	-	12,696	63,550
-	-	14,489	623,890
-	-	-	772,230
-	-	171,184	286,031
-	280	1,207,880	9,019,138
-	-	-	35,974
-	-	285,953	1,399,277
-	-	115,858	3,409,129
-	-	-	1,794,965
-	-	-	-
-	-	1,725,469	1,762,136
-	-	-	-
-	-	46,075	46,075
-	-	2,173,355	8,447,556
-	280	(965,475)	571,582
264,767	225,000	983,872	1,473,639
-	-	(23,439)	(1,807,839)
264,767	225,000	960,433	(334,200)
264,767	225,280	(5,042)	237,382
-	-	1,212,491	3,689,861
<u>\$ 264,767</u>	<u>\$ 225,280</u>	<u>\$ 1,207,449</u>	<u>\$ 3,927,243</u>

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 2,406,367	\$ 2,660,499
Investments	248,490	5,430,680
Receivables		
Notes - Current portion	-	-
Accounts	6,048,022	2,166,042
Interest	-	69,462
Grants	-	-
Contribution	-	-
Inventory	-	507,937
Due from other funds	-	1,088,037
Advances due from other funds	-	120,516
Other current assets	<u>1,236,531</u>	<u>2,450</u>
Total current assets	9,939,410	12,045,623
NONCURRENT ASSETS		
Unamortized bond costs	701,483	-
Restricted assets	2,916,407	1,559,417
Notes receivable	-	-
Special assessments	-	645,966
Advances due from other funds	-	484,997
Other assets	301,521	386,019
Capital assets, net of depreciation	<u>21,087,833</u>	<u>22,055,758</u>
Total noncurrent assets	<u>25,007,244</u>	<u>25,132,157</u>
Total assets	34,946,654	37,177,780

Continued on next page

See accompanying notes to the financial statements

<u>Sanitary Sewer Fund</u>	<u>Water Fund</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ -	\$ 237,326	\$ 1,086,277	\$ 6,390,469	\$ 1,995,863
-	-	-	5,679,170	9,305
-	-	29,868	29,868	-
245,001	176,128	143,698	8,778,891	6,360
-	-	-	69,462	-
-	5,595	-	5,595	-
-	-	-	-	-
98,554	46,533	-	653,024	7,457
-	-	-	1,088,037	215,133
-	-	30,000	150,516	-
-	-	-	1,238,981	-
343,555	465,582	1,289,843	24,084,013	2,234,118
-	-	-	701,483	-
-	-	-	4,475,824	-
-	-	139,191	139,191	-
373,963	331,355	-	1,351,284	-
-	-	25,116	510,113	-
-	-	200,000	887,540	-
<u>7,580,618</u>	<u>3,611,793</u>	<u>111,890</u>	<u>54,447,892</u>	<u>1,719,964</u>
<u>7,954,581</u>	<u>3,943,148</u>	<u>476,197</u>	<u>62,513,327</u>	<u>1,719,964</u>
8,298,136	4,408,730	1,766,040	86,597,340	3,954,082

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS - Continued
SEPTEMBER 30, 2006

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 267,962	\$ 430,000
Accounts payable	2,252,259	1,196,835
Accrued expenses	2,518,558	254,294
Customer deposits	-	116,730
Due to other funds	-	65,133
Advances due to other funds	150,516	-
Cost report settlements	<u>403,621</u>	<u>-</u>
Total current liabilities	5,592,916	2,062,992
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	11,734,317	5,285,000
Advances due to other funds	<u>510,113</u>	<u>-</u>
Total noncurrent liabilities	<u>12,244,430</u>	<u>5,285,000</u>
Total liabilities	17,837,346	7,347,992
NET ASSETS		
Invested in capital assets, net of related debt	8,424,925	16,340,758
Restricted	540,605	1,559,417
Unrestricted	<u>8,143,778</u>	<u>11,929,613</u>
Total net assets	<u>\$ 17,109,308</u>	<u>\$ 29,829,788</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 280,000	\$ 180,000	\$ 101,234	\$ 1,259,196	\$ 108,966
168,750	321,433	23,963	3,963,240	344,279
12,056	13,845	12,975	2,811,728	1,916
-	300	-	117,030	-
1,023,481	-	64,556	1,153,170	150,000
-	-	-	150,516	-
-	-	-	403,621	-
1,484,287	515,578	202,728	9,858,501	605,161
3,195,000	420,000	245,630	20,879,947	609,712
-	-	-	510,113	-
3,195,000	420,000	245,630	21,390,060	609,712
4,679,287	935,578	448,358	31,248,561	1,214,873
4,105,618	3,011,793	(234,974)	31,648,120	1,001,286
-	-	-	2,100,022	-
(486,769)	461,359	1,552,656	21,600,637	1,737,923
<u>\$ 3,618,849</u>	<u>\$ 3,473,152</u>	<u>\$ 1,317,682</u>	<u>\$ 55,348,779</u>	<u>\$ 2,739,209</u>

CITY OF STURGIS
RECONCILIATION OF NET ASSETS ON THE STATEMENT OF
NET ASSETS FOR ENTERPRISE FUNDS TO NET ASSETS OF
BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Net assets - total enterprise funds	\$ 55,348,779
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Amounts reported for business-type activities
in the statement of net assets are different
because:

Internal service funds are used by management
to charge the costs of certain services to
individual governmental and business-type
funds. The net revenue (expense) of the
internal service funds are allocated to
governmental and business-type activities.

Add - cumulative portion of internal service funds net operating profit attributed to business-type funds	<u>1,100,286</u>
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Net assets of business-type activities	<u><u>\$ 56,449,065</u></u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Hospital Fund</u>	<u>Electric Fund</u>
OPERATING REVENUE		
Charges for services	\$ 36,609,444	\$ 18,131,883
Federal grants	-	-
State grants	-	-
Interest revenue	-	-
Other	<u>402,867</u>	<u>214,692</u>
Total operating revenue	37,012,311	18,346,575
OPERATING EXPENSES		
Purchased power	-	10,399,940
Material, maintenance and other	22,825,494	1,853,349
General and administrative	13,233,738	1,572,904
Payments in lieu of taxes	-	1,227,135
Depreciation and amortization	1,280,198	1,702,919
Provision for loan losses	<u>-</u>	<u>-</u>
Total operating expenses	<u>37,339,430</u>	<u>16,756,247</u>
OPERATING INCOME (LOSS)	(327,119)	1,590,328
NONOPERATING REVENUE (EXPENSES)		
Investment income	310,171	68,875
Interest expense	(335,963)	(330,219)
Gain on sale of assets	16,228	-
Other	<u>26,200</u>	<u>151,908</u>
Total non-operating revenue (expenses)	<u>16,636</u>	<u>(109,436)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(310,483)	1,480,892
CAPITAL CONTRIBUTIONS	435,248	110,867
TRANSFERS IN	<u>-</u>	<u>80,000</u>
CHANGE IN NET ASSETS	124,765	1,671,759
NET ASSETS - BEGINNING OF YEAR	<u>16,984,543</u>	<u>28,158,029</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 17,109,308</u></u>	<u><u>\$ 29,829,788</u></u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,685,805	\$ 1,010,000	\$ 736,398	\$ 58,173,530	\$ 2,537,575
-	-	-	-	-
-	-	5,586	5,586	-
-	-	2,926	2,926	-
<u>10,861</u>	<u>10,710</u>	<u>-</u>	<u>639,130</u>	<u>268,396</u>
1,696,666	1,020,710	744,910	58,821,172	2,805,971
-	-	-	10,399,940	-
848,171	401,033	793,651	26,721,698	1,765,830
293,623	300,499	183,131	15,583,895	470,896
104,731	67,691	-	1,399,557	-
674,849	263,618	44,756	3,966,340	315,197
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,921,374</u>	<u>1,032,841</u>	<u>1,021,538</u>	<u>58,071,430</u>	<u>2,551,923</u>
(224,708)	(12,131)	(276,628)	749,742	254,048
252	354	-	379,652	25,623
(84,375)	(37,100)	(10,105)	(797,762)	(35,243)
-	-	-	16,228	179,934
<u>-</u>	<u>779</u>	<u>-</u>	<u>178,887</u>	<u>-</u>
<u>(84,123)</u>	<u>(35,967)</u>	<u>(10,105)</u>	<u>(222,995)</u>	<u>170,314</u>
(308,831)	(48,098)	(286,733)	526,747	424,362
-	8,545	-	554,660	-
<u>-</u>	<u>-</u>	<u>254,200</u>	<u>334,200</u>	<u>-</u>
(308,831)	(39,553)	(32,533)	1,415,607	424,362
<u>3,927,680</u>	<u>3,512,705</u>	<u>1,350,215</u>	<u>53,933,172</u>	<u>2,314,847</u>
<u>\$ 3,618,849</u>	<u>\$ 3,473,152</u>	<u>\$ 1,317,682</u>	<u>\$ 55,348,779</u>	<u>\$ 2,739,209</u>

CITY OF STURGIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS OF ENTERPRISE FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

Changes in net assets - total enterprise funds \$ 1,415,607

Amounts reported for business-type activities
in the statement of activities are different
because:

Internal service funds are used by management
to charge the costs of certain services to
individual governmental and business-type
funds. The net revenue (expense) of the
internal service funds are allocated to
governmental and business-type activities.

Add - net change from internal service
funds related to enterprise funds 110,943

Change in net assets of business-type activities \$ 1,526,550

See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2006**

	Hospital Fund	Electric Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 34,874,088	\$ 17,917,909
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	402,867	214,692
Payments to employees and suppliers	<u>(36,974,325)</u>	<u>(14,873,651)</u>
Net cash provided by (used for) operating activities	(1,697,370)	3,258,950
Cash flows from non-capital financing activities		
Contributions and other receipts	-	154,292
Transfers in	<u>-</u>	<u>80,000</u>
Net cash provided by non-capital financing activities	-	234,292
Cash flows from capital and related financing activities		
Principal paid on debt	(187,630)	-
Interest paid on debt	(500,691)	(216,290)
Receipts from interfund advances	-	103,927
Payments against interfund advances	(136,011)	-
Customer deposits	-	3,790
Acquisition of capital assets	(8,799,055)	(1,134,215)
Proceeds from sale of capital assets	20,940	-
Receipts from capital grants/contributions	470,001	110,867
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(9,132,446)	(1,131,921)
Cash flows from investing activities		
Interest received on investments	310,171	145,078
Purchase of investments	-	(11,128)
Proceeds from maturity of investments-	8,108,279	-
Other	<u>-</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>8,418,450</u>	<u>133,950</u>
Net increase (decrease) in cash	(2,411,366)	2,495,271
Cash - beginning of year	<u>5,066,223</u>	<u>165,228</u>
Cash - ending of year	<u>\$ 2,654,857</u>	<u>\$ 2,660,499</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,661,579	\$ 1,024,015	\$ 947,722	\$56,425,313	\$ 262,366
-	-	61,649	61,649	-
-	-	4,774	4,774	-
-	-	-	-	2,537,575
-	-	2,926	2,926	-
10,861	10,710	-	639,130	-
<u>(1,037,165)</u>	<u>(484,382)</u>	<u>(1,247,173)</u>	<u>(54,616,696)</u>	<u>(2,018,963)</u>
635,275	550,343	(230,102)	2,517,096	780,978
1,948	3,515	-	159,755	-
<u>-</u>	<u>-</u>	<u>254,200</u>	<u>334,200</u>	<u>-</u>
1,948	3,515	254,200	493,955	-
(275,000)	(180,000)	(100,165)	(742,795)	(124,267)
(84,375)	(37,100)	(10,105)	(848,561)	(35,243)
-	-	32,084	136,011	-
-	-	-	(136,011)	-
-	-	-	3,790	-
(278,100)	(351,616)	-	(10,562,986)	(691,421)
-	-	-	20,940	226,254
-	2,950	-	583,818	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,600</u>
(637,475)	(565,766)	(78,186)	(11,545,794)	(398,077)
252	354	-	455,855	25,623
-	-	-	(11,128)	-
-	-	-	8,108,279	7,371
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
252	354	-	8,553,006	32,994
-	(11,554)	(54,088)	18,263	415,895
<u>-</u>	<u>248,880</u>	<u>1,140,365</u>	<u>6,620,696</u>	<u>1,579,968</u>
<u>\$ -</u>	<u>\$ 237,326</u>	<u>\$ 1,086,277</u>	<u>\$ 6,638,959</u>	<u>\$ 1,995,863</u>

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2006

	<u>Hospital Fund</u>	<u>Electric Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (327,119)	\$ 1,590,328
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	1,280,198	1,702,919
Provision for bad debts	2,333,396	-
Provision for loan losses	-	-
Loss on disposal of assets	-	-
(Increase) decrease in:		
Accounts receivable	(3,478,360)	(213,974)
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	-	(93,197)
Due from other funds	-	128,391
Cost report settlements	-	-
Other current assets	77,183	4,881
Increase (decrease) in:		
Accounts payable	(1,102,818)	97,987
Accrued expenses	116,529	(23,518)
Due to other funds	-	65,133
Cost report settlements	<u>(596,379)</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ (1,697,370)</u>	<u>\$ 3,258,950</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ (224,708)	\$ (12,131)	\$ (276,628)	\$ 749,742	\$ 254,048
674,849	263,618	44,756	3,966,340	315,197
-	-	-	2,333,396	-
-	-	-	-	-
-	-	-	-	-
(24,226)	14,015	211,324	(3,491,221)	(6,360)
-	-	4,774	4,774	-
-	-	-	-	-
-	-	56,063	56,063	-
(3,228)	(6,198)	-	(102,623)	38
-	-	-	128,391	-
-	-	-	-	-
-	-	-	82,064	-
134,855	286,740	16,665	(566,571)	218,774
(12,558)	4,299	(3,241)	81,511	(719)
90,291	-	(283,815)	(128,391)	-
-	-	-	(596,379)	-
<u>\$ 635,275</u>	<u>\$ 550,343</u>	<u>\$ (230,102)</u>	<u>\$ 2,517,096</u>	<u>\$ 780,978</u>

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2006

	Pension Trust Fund	Agency Fund	Combining Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,663,017	\$ 237,072	\$ 2,900,089
Investments	51,111,809	-	51,111,809
Accounts receivable	95,580	-	95,580
Dividends and interest receivable	<u>130,728</u>	<u>-</u>	<u>130,728</u>
Total assets	54,001,134	237,072	54,238,206
<u>LIABILITIES</u>			
Accounts payable	39,080	-	39,080
Due to other governmental units	-	190,889	190,889
Other liabilities	<u>-</u>	<u>46,183</u>	<u>46,183</u>
Total liabilities	39,080	237,072	276,152
NET ASSETS			
Held in trust for pension benefits	<u>\$ 53,962,054</u>	<u>\$ -</u>	<u>\$ 53,962,054</u>

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

ADDITIONS

Contributions:

Employer	\$ 1,968,633
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Investment income:

Net appreciation (depreciation) in fair value of investments	2,029,212
Interest and dividends	<u>1,649,882</u>

Total investment income	<u>3,679,094</u>
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Total additions	5,647,727
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DEDUCTIONS

Benefits	1,978,416
Administrative expense	<u>415,205</u>

Total deductions	<u>2,393,621</u>
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Net increase	3,254,106
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Net assets held in trust for pension benefits

Beginning of year	<u>50,707,948</u>
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End of year	<u>\$ 53,962,054</u>
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See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	<u>Downtown Development Authority</u>	<u>Sturgis Housing Development Corporation</u>	<u>Combined Totals</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 172,312	\$ 30,454	\$ 202,766
Other asset	-	1,000	1,000
Capital assets			
Other capital assets, net of depreciation	<u>243,201</u>	<u>-</u>	<u>243,201</u>
Total assets	415,513	31,454	446,967
<u>LIABILITIES</u>			
Accounts payable	872	-	872
Accrued expenses	620	-	620
Other liabilities	1,510	-	1,510
Due to primary government	<u>-</u>	<u>31,454</u>	<u>31,454</u>
Total liabilities	3,002	31,454	34,456
NET ASSETS			
Invested in capital assets	243,201	-	243,201
Unrestricted	<u>169,310</u>	<u>-</u>	<u>169,310</u>
Total net assets	<u>\$ 412,511</u>	<u>\$ -</u>	<u>\$ 412,511</u>

See accompanying notes to the financial statements

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Downtown Development Authority</u>	<u>Sturgis Housing Development Corporation</u>	<u>Combining Totals</u>
Downtown Development Authority-economic development	\$ 98,766	\$ 9,273	\$ 390	\$ (89,103)	\$ -	\$ (89,103)
Housing Development Corporation	-	-	-	-	-	-
Total discretely presented component units	<u>\$ 98,766</u>	<u>\$ 9,273</u>	<u>\$ 390</u>	(89,103)	-	(89,103)
General revenues						
Property taxes				<u>82,232</u>	<u>-</u>	<u>82,232</u>
Change in net assets				(6,871)	-	(6,871)
Net assets - beginning of year				<u>419,382</u>	<u>-</u>	<u>419,382</u>
Net assets - end of year				<u>\$ 412,511</u>	<u>\$ -</u>	<u>\$ 412,511</u>

See accompanying notes to the financial statements

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Sturgis conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for 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. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

Reporting Entity

The City of Sturgis is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Sturgis operates under a Commission - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Sturgis Hospital is a short-term acute care facility providing in-patient, out-patient, and home health care services to the Sturgis, Michigan area. The Hospital is a component unit of the City of Sturgis. The Hospital's governing body is selected by the Mayor with City Commission approval. In addition, the Hospital's budget, rates, and charges are subject to approval by the City Commission. The Hospital Fund is included as a part of the primary government because it is not legally separate from the City.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.
- b. The Sturgis Housing Development Corporation was created for the purpose of the development of residential, commercial, and industrial real estate, including development in accordance with guidelines and financial assistance provided by the Michigan State Housing Development Authority. The City of Sturgis is the sole owner of the Corporation, with ultimate control and supervision.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting - 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 constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- * 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

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the City elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The City reports the following major funds:

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street and Trunkline Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

Local Street Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

Enterprise Funds

Hospital Fund - To account for user charges and for operating expenses and debt service of the City's patient care facility.

Electric Fund - To account for user charges and for operating expenses and debt service of the City's electric utility system.

Water Fund - To account for user charges and for operating expenses and debt service of the City's water system.

Sewer Fund - To account for user charges and for operating expenses and debt service of the City's sewer system.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the City:

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Permanent Funds - The permanent funds are used to account for the assets of legal trust agreements held by the City as trustee for which only the interest income on the principal may be spent.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the City:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

Agency Funds - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Pension Trust Funds - The pension trust funds are used to account for the assets held by the City as trustee for the employee retirement systems.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- * Prior to August 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted at the City hall to obtain public comments.
- * Prior to August 20th the budget and annual appropriations act are legally adopted by the City Commission.
- * Formal budget integration is employed as a management control device during the year for all budgetary funds.
- * Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2006, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- * All budget appropriations lapse at the end of the year.
- * Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government or federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City's pension trust fund is also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents".

In addition, certain City funds including the Pension Trust Fund, Cemetery Trust Fund, Hospital Trust Fund, Hospital Fund, Electric Fund, Workers' Compensation Self-Insurance Fund, and Employee Benefit Fund have investments which are separately held from those of other City funds. For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account. Investments with a maturity of greater than one year at the date of purchase are stated at fair value and all other investments are stated at cost or amortized cost.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$11.8894 per \$1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2006, was \$10.82 per \$1,000 of taxable valuation. The 2005 taxable value of the City was \$246,960,757.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories and Prepaid Items - Inventories include materials, repair parts and supplies for various City operations and are valued at the lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Cash and Cash Equivalents - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Roads and sidewalks	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The City has capitalized the current year's infrastructure as required by GASB 34, and has reported the infrastructure in the statement of net assets. The City will retroactively capitalize the major infrastructure assets on or before September 30, 2007, as permitted by GASB 34.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types 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 type 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.

Cash Overdrafts - To facilitate cash management and to maximize interest income, the primary government and component units have pooled certain cash and investment accounts. Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid expenditures and inventories as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are included on the balance sheet under the following classifications:

	Primary Government	Component Units	Total
Statement of Net Assets:			
Cash and investments	\$ 20,731,325	\$ 202,766	\$ 20,934,091
Restricted assets	4,475,824	-	4,475,824
Statement of Fiduciary			
Net Assets:			
Cash and equivalents	2,900,089	-	2,900,089
Investments	51,111,809	-	51,111,809
Total	<u>\$ 79,219,047</u>	<u>\$ 202,766</u>	<u>\$ 79,421,813</u>
Deposits and Investments:			
Bank deposits (checking accounts, savings accounts, and CDs)			\$ 8,771,694
Investments in securities, mutual funds, annuity contract, and similar vehicles			70,645,719
Cash on hand			4,400
Total			<u>\$ 79,421,813</u>

Deposits - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$11,171,600. Of that amount, approximately \$931,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to component unit deposits, if any, is not determinable.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments - Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year-end:

- * Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or its agent in the entity's name.
- * Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or agent in the entity's name.
- * Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name.

	<u>1</u>	Category <u>2</u>	<u>3</u>	Carrying Amount
Corporate bonds	\$ -	\$10,212,288	\$ -	\$10,212,288
Common stock	-	30,324,684	-	30,324,684
US gov. securities	<u>-</u>	<u>18,305,231</u>	<u>-</u>	<u>18,305,231</u>
	<u>\$ -</u>	<u>\$58,842,203</u>	<u>\$ -</u>	58,842,203
Mutual and cash management funds (uncategorized as to risk)				<u>11,803,516</u>
Total investments				<u>\$70,645,719</u>

The composition of pension trust fund investments at fair value at September 30, 2006 follows:

Corporate bonds and notes	\$ 8,627,025
Common stocks	30,324,684
US gov. securities	<u>12,160,100</u>
Total investments	<u>\$51,111,809</u>

Investments of the City, including the pension investment portfolio, utilizes no derivative instruments.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 69 percent special assessments, 8.8 percent property tax, 15.8 percent due from other governments, 5.8 percent accounts receivable, and 0.6 percent accrued interest. Business-type activities receivables are 84.7 percent due from customers, 1.6 percent loans, 13 percent special assessments, and 0.7 percent accrued interest.

Accounts receivable of the Hospital Fund are reported net of an allowance for uncollectible accounts of \$1,487,000 and net of an allowance for contractual adjustments and interim payment advances of \$3,761,000. The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows: Medicare - 34%, Medicaid - 8%, Blue Cross - 10%, Other commercial payors - 18%, Patients - self pay - 30%.

Accounts receivable of the Electric Fund are reported net of an allowance for uncollectible accounts of \$100,000.

Accounts receivable of the EMS/Ambulance Fund are reported net of an allowance for uncollectible accounts of \$95,363.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes levied and collected for next fiscal years operation (general fund)	\$ -	\$2,622,135	\$2,622,135
Special assessments not yet due (General, major and local street funds)	663,790	-	663,790
Customer deposits for future services/events (general and special revenue funds)	-	109,492	109,492
	<u>\$ 663,790</u>	<u>\$2,731,627</u>	<u>\$3,395,417</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2006:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Electric	\$1,088,037	Sewer	\$1,023,481
		EMS/Ambulance	64,556
	<u>1,088,037</u>		<u>1,088,037</u>
Workers' Compensation			
Self-Insurance	215,133	Employee Benefit	150,000
		Electric	65,133
	<u>215,133</u>		<u>215,133</u>
Totals	<u>\$1,303,170</u>		<u>\$1,303,170</u>
<u>Advances from/to other funds</u>			
Electric	\$ 605,513	Hospital	\$ 605,513
Grobhiser Building	<u>55,116</u>	Hospital	<u>55,116</u>
Totals	<u>\$ 660,629</u>		<u>\$ 660,629</u>
Total Primary Government	<u>\$1,963,799</u>		<u>\$1,963,799</u>
<u>Due from/to Component Units</u>			
Primary government -		Component Unit -	
Housing Department	<u>31,454</u>	Housing Development Corporation	<u>31,454</u>
Total Reporting Entity	<u><u>\$1,995,253</u></u>		<u><u>\$1,995,253</u></u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of Internal Service Funds.

Transfers consisted of the following for the year ended September 30, 2006:

Fund	Transfers Out	Fund	Transfers In
General	\$ 1,784,400	Municipal Street	\$ 264,767
		Capital Projects	225,000
		Building Department	80,000
		Housing Department	10,000
		Cemetery	90,000
		Drug Enforcement	25,000
		Parks and Recreation	296,000
		Civic Auditorium	266,100
		Library	183,333
		Doyle Community Center	10,000
		Electric	80,000
		Economic Enhancement	69,500
		EMS/Ambulance	184,700
	1,784,400		1,784,400
Cemetery Trust	23,439	Cemetery	23,439
Total Primary Government	<u>\$ 1,807,839</u>		<u>\$ 1,807,839</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2006, was as follows:

	Balance October 1, 2005	Additions	Disposals	Balance September 30, 2006
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	364,761	373,066	-	737,827
Land improvements	3,682,338	-	-	3,682,338
Buildings and improvements	6,908,797	-	-	6,908,797
Machinery and equipment	1,493,701	171,843	106,030	1,559,514
Vehicles	2,420,476	312,150	258,036	2,474,590
Office furniture and equipment	<u>467,580</u>	<u>-</u>	<u>100,530</u>	<u>367,050</u>
Subtotal	15,337,653	857,059	464,596	15,730,116
Accumulated depreciation				
Infrastructure	36,480	24,320	-	60,800
Land improvements	551,263	57,870	-	609,133
Buildings and improvements	1,138,164	172,720	-	1,310,884
Machinery and equipment	1,205,771	114,595	73,607	1,246,759
Vehicles	1,635,646	198,260	258,036	1,575,870
Office furniture and equipment	<u>409,048</u>	<u>11,706</u>	<u>100,530</u>	<u>320,224</u>
Subtotal	<u>4,976,372</u>	<u>579,471</u>	<u>432,173</u>	<u>5,123,670</u>
Net capital assets being depreciated	<u>10,361,281</u>			<u>10,606,446</u>
Net capital assets	<u>\$10,927,541</u>			<u>\$11,172,706</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2005	Additions	Disposals/ Transfers	Balance Sept. 30, 2006
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 457,970	\$ -	\$ -	\$ 457,970
Construction in progress	<u>5,978,225</u>	<u>-</u>	<u>5,978,225</u>	<u>-</u>
Subtotal	6,436,195	-	5,978,225	457,970
Capital assets, being depreciated:				
Land improvements	837,621	1,760	-	839,381
Buildings, improvements and system	87,442,224	14,575,271	60,685	101,956,810
Machinery and equipment	1,788,269	75,148	49,774	1,813,643
Vehicles	1,234,330	133,779	110,587	1,257,522
Office furniture and equipment	<u>14,942,418</u>	<u>2,094,628</u>	<u>145,137</u>	<u>16,891,909</u>
Subtotal	106,244,862	16,880,586	366,183	122,759,265
Accumulated depreciation				
Land improvements	462,780	17,947	-	480,727
Buildings, improvements and system	49,690,386	3,151,120	32,081	52,809,425
Machinery and equipment	1,205,498	45,125	35,878	1,214,745
Vehicles	735,351	99,570	82,660	752,261
Office furniture and equipment	<u>12,389,539</u>	<u>741,112</u>	<u>134,456</u>	<u>12,996,195</u>
Subtotal	<u>64,483,554</u>	<u>4,054,874</u>	<u>285,075</u>	<u>68,253,353</u>
Net capital assets being depreciated	<u>41,761,308</u>			<u>54,505,912</u>
Net capital assets	<u>\$48,197,503</u>			<u>\$54,963,882</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 5 - CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 92,966	Hospital	\$ 1,274,173
Public safety	225,904	Electric	1,797,478
Public works	104,325	Sanitary Sewer	674,849
Recreation and cultural	<u>156,276</u>	Water	263,618
		EMS/Ambulance	<u>44,756</u>
Total	<u>\$ 579,471</u>	Total	<u>\$ 4,054,874</u>

Discretely Presented Component Units

	Balance October 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2006</u>
Capital assets, being depreciated				
Buildings and improvements	\$ 302,700	\$ -	\$ -	\$ 302,700
Accumulated depreciation				
Buildings and improvements	<u>44,364</u>	<u>15,135</u>	<u>-</u>	<u>59,499</u>
Net capital assets being depreciated	<u>\$ 258,336</u>	<u>\$ 15,135</u>	<u>\$ -</u>	<u>\$ 243,201</u>

Depreciation was charged to programs of the component units as follows:

Downtown Development Authority	<u>\$ 15,135</u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2006:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Current Portion
Governmental Activities					
Loans payable	\$ 820,271	\$ 226,600	\$ 103,151	\$ 943,720	\$ 111,603
Compensated absences	743,208	3,087	-	746,295	-
	1,563,479	229,687	103,151	1,690,015	111,603
Business-Type Activities					
Revenue bonds	21,340,000	-	485,000	20,855,000	1,060,000
Loans payable	1,394,798	-	207,708	1,187,090	188,169
Capital leases	158,020	78,000	105,535	130,485	44,459
Compensated absences	1,096,604	16,937	-	1,113,541	-
	<u>23,989,422</u>	<u>94,937</u>	<u>798,243</u>	<u>23,286,116</u>	<u>1,292,628</u>
Total Primary Government Long-Term Debt	<u>\$25,552,901</u>	<u>\$ 324,624</u>	<u>\$ 901,394</u>	<u>\$24,976,131</u>	<u>\$ 1,404,231</u>

Long-term debt payables at September 30, 2006, consisted of the following individual issues:

Governmental Activities

Note payable to Citizens Bank in the amount of \$226,600, monthly payment of \$3,650 including interest at 3.625%, final payment due November 15, 2010, secured by street sweeper with a net book value of \$185,060 \$ 193,831

Note payable to Century Bank and Trust in the amount of \$648,000, monthly payment of \$5,089 including interest at 4.895%, final payment due February, 2017, secured by Fire Truck with a net book value of \$442,800 491,415

Note payable to Century Bank and Trust in the amount of \$375,000, monthly payment of \$3,840 including interest at 4.24%, final payment due March 15, 2013, secured by certain building 258,474

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 6 - LONG-TERM DEBT - Continued

Long-term compensated absences 746,295

Total Governmental Activities
Long-Term Liabilities \$ 1,690,015

Business-Type Activities

\$5,725,000 2006 Electric revenue refunding
bonds, payable in semi-annual installments
ranging from \$430,000 to \$640,000, plus
interest at 3.25% to 5.0%, final payment
due May, 2017 \$ 5,715,000

\$2,290,000 1994 Water Supply and Distribution
system revenue bonds, payable in semi-annual
installments ranging from \$140,000 to \$210,000,
plus interest at 3.3% to 5.5%, final payment
due April, 2009 600,000

\$5,745,000 1996 Sanitary Sewer System revenue
bonds, payable in semi-annual installments
ranging from \$240,000 to \$355,000, plus
interest at 2.25%, final payment due
September 30, 2017 3,475,000

\$360,000 1993 Grobhiser Building revenue sharing
bonds, payable in semi-annual installments
ranging from \$25,000 to \$35,000, plus interest
at 2.9% to 5.9%, final payment due May, 2008 70,000

Sturgis Building Authority MI Building Authority
Bonds, Series 2005 Bonds, payable annually
beginning October 1, 2006 and ending October 1,
2034, ranging from \$125,000 to \$725,000,
including interest paid semiannually with rates
ranging from 3.75% to 4.75%, are collateralized
by Hospital assets 10,000,000

Sturgis Building Authority MI Building Authority
Bonds, Series 2006 Bonds, payable annually
beginning October 1, 2006 and ending October 1,
2034, ranging from \$15,000 to \$60,000,
including interest paid semiannually with rates
ranging from 4.25% to 4.80%, are collateralized
by Hospital assets 995,000

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 6 - LONG-TERM DEBT - Continued

Note payable to Citizens bank in the amount of \$261,745, monthly payment of \$4,843 including interest at 4.19%, final payment due May, 2007, secured by two utility vehicles with a net book value of \$134,055	33,432
Note payable to Citizens Bank in the amount of \$196,983, monthly payment of \$3,511 including interest at 2.68%, final payment due March 11, 2009, secured by (3) ambulances with a net book value of \$98,490	98,502
Note payable to Citizens Bank in the amount of \$26,797, monthly payment of \$775 including interest at 2.67%, final payment due March 11, 2007, secured by (2) defibrillators with a net book value of \$13,399	6,142
Note payable to Michigan Economic Development Corporation, non-interest bearing, no specific repayment terms	172,220
Memorial Health System note bears interest at prime rate as of January 1 of the Hospital's fiscal year or 4.50%, payable in monthly installments of \$4,333 plus interest. The note is secured by certain buildings and is due in full in January, 2009.	377,000
Century Bank and Trust building loan bears interest at 5.15%, payable in monthly installments of \$1,843, including interest, secured by certain buildings and due in full in August, 2018.	196,710
Century Bank and Trust equipment loan bears interest at 4.5%, payable in monthly installments of \$177, including interest, secured by certain equipment and due in full in June, 2013.	12,193
Century Bank and Trust R & F loan bears interest at 4.2%, payable in monthly installments of \$2,459, including interest, secured by certain equipment and due in full in June 2019	290,891

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 6 - LONG-TERM DEBT - Continued

Various capital lease obligations on Sturgis Hospital's books with monthly payments totaling \$4,542 plus imputed interest of 4% to 7.62% for the year ended September 30, 2006, collateralized by Hospital equipment	130,485
Long-Term Compensated Absences	<u>1,113,541</u>
Total Business-Type Activities Long-Term Liabilities	<u>23,286,116</u>
Total Primary Government Long-Term Debt	<u>\$24,976,131</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2006 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 111,603	\$ 39,345	\$ 150,948
2008	114,337	36,611	150,948
2009	119,317	31,631	150,948
2010	124,568	26,380	150,948
2011	124,226	19,100	143,326
2012-2016	327,039	47,421	374,460
2017-2021	<u>22,630</u>	<u>2,815</u>	<u>25,445</u>
Total	<u>\$ 943,720</u>	<u>\$ 203,303</u>	<u>\$ 1,147,023</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,292,628	\$ 925,373	\$ 2,218,001
2008	1,260,178	869,112	2,129,290
2009	1,191,183	816,347	2,007,530
2010	956,825	765,505	1,722,330
2011	1,160,793	593,734	1,754,527
2012-2016	5,250,550	2,800,273	8,050,823
2017-2021	3,036,891	2,126,681	5,163,572
2022-2026	1,970,908	1,698,890	3,669,798
2027-2031	2,575,000	1,205,829	3,780,829
2032-2034	3,305,399	484,440	3,789,839
Unscheduled	<u>172,220</u>	<u>-</u>	<u>172,220</u>
Total	<u>\$ 22,172,575</u>	<u>\$ 12,286,184</u>	<u>\$ 34,458,759</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2006, the Sturgis Hospital Fund reflected advances due to the following funds:

Electric Fund

Payable in monthly installments of \$2,247, plus interest at 6%, due in full September 30, 2023.	\$ 458,479
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Payable in monthly installments of \$7,333, including interest at 6%, due in full June, 2008.	<u>147,034</u>
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Total Electric Fund	605,513
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Grobhiser Building Fund

Payable in monthly installments of \$6,402, including interest at rates of 5.5% to 5.9%, due in full April, 2008.	<u>55,116</u>
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Total Advances Due to Other Funds	<u><u>\$ 660,629</u></u>
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NOTE 8 - NOTES RECEIVABLE

At September 30, 2006, the Economic Development Fund reflected the following notes receivable:

Note receivable from Grav-I-Flo Company collectible in monthly installments of \$1,833 plus interest at 6.5%, final collection due August, 2009.	\$ 100,833
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Note receivable from Miksani Polymer Tech. LLC, collectible in monthly installments of \$1,100 including interest at the Wall Street Journal prime rate plus 0.75%, final collection due September, 2012	<u>68,226</u>
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Total notes receivable	<u><u>\$ 169,059</u></u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for most risks of loss to which it is exposed and to cover the majority of the health care benefits provided to City employees. The City management believes it is more economical to manage its risk of loss for claims arising from workers' compensation for all employees internally and, accordingly, has set aside assets for claim settlements in an internal service fund. The Hospital has purchased commercial insurance for malpractice and general liability claims, and participates with the City for claims relating to workers' compensation. The Hospital is self-insured for employee medical benefit claims.

During the year ended September 30, 2006, a total of \$61,102 was incurred in workers' compensation claims and related administrative costs. An excess coverage insurance policy covers individual claims in excess of \$250,000 and aggregate claims exceeding \$500,000 to a limit of \$5,000,000.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2006, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	73,102
Claim payments	<u>61,102</u>
Claims liability September 30	<u>\$ 32,000</u>

For all eligible City employees, the City purchases commercial health care insurance. Maximum insurance coverage is \$5,000,000 annually for specific claims. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for some minor employee medical benefits which totaled \$154,706 in 2006 and are reported in the Employee Benefit Fund.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 9 - RISK MANAGEMENT - Continued

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2006, was as follows:

Claims liability October 1	\$ 50,000
Current year claims and changes in estimates	254,706
Claim payments	<u>154,706</u>
Claims liability September 30	<u>\$ 150,000</u>

The Hospital is self-insured for employee medical benefit claims. Changes in the estimated liability, which was included in the Hospital Fund accrued expenses, for the year ended September 30, 2006, was as follows:

Claims liability October 1	\$ 400,000
Current year claims and changes in estimates	3,404,857
Claim payments	<u>(3,404,857)</u>
Claims liability September 30	<u>\$ 400,000</u>

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible towards the costs of litigation or settling any asserted claims. In addition, the Hospital (the City of Sturgis) bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all City unionized employees and all City Hospital employees who normally work 1,000 hours or more a year, and all other full time City employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 180 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 440 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings. There are no employee contributions.

Annual Pension Cost

For the year ended September 30, 2006, the City's annual pension cost of \$2,002,309 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.5 to 17.5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The assets as of the valuation date exceed the accrued liabilities for all divisions. Due to this excess, a credit has been taken against the normal cost. The credit amortizes the over funding using a rolling 11-year period. The changes in liability due to recent and future benefit and assumption changes are funded over a 17-year amortization period.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2005)

<u>Eligibility</u>	<u>Amount</u>
REGULAR RETIREMENT	
(no reduction factor for age)	
General and Electrical Union:	Total service multiplied by:
Any age with 25 years of service	
General, Electrical and Hospital:	General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
Age 60 with 10 year of service or 65 with 5 years of service.	Electrical - 1.8% of FAC Hospital - 1.8% of FAC
Police, Fire and ALS/BLS:	
Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	2.5% of FAC Type of final average compensation - Fire and ALS/BLS: Highest 3 consecutive years out of last 5. Others: Highest 5 consecutive years out of last 10
DEFERRED RETIREMENT	
Electrical, Non-Union and Hospital: 5 years of service.	Computed as a regular retirement but based upon service and final average compensation at termination date.
Other: 10 years of service.	
Benefit begins at normal retirement age.	
NON-DUTY DEATH BEFORE RETIREMENT	
10 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

DUTY DEATH BEFORE RETIREMENT

No age or service requirements	Upon termination of Workers' Compensation, benefits equal to the Workers' Compensation payments to the spouse, children under age 18 and dependent parents.
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NON-DUTY DISABILITY RETIREMENT

10 years of service.	Computed as a regular retirement. Maximum Amount - Final average compensation less Social Security amount, if any.
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DUTY DISABILITY RETIREMENT

No age or service requirements.	Computed as regular retirement. Upon attaining age 65 and termination of Workers' Compensation, additional service credit is granted for period in receipt of Workers' Compensation, and benefit is recomputed. Minimum amount - 17% of final average compensation less Social Security amount. Maximum amount - final average compensation less Social Security amount.
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MEMBER CONTRIBUTIONS

Electrical, Police, Fire, Dispatchers	$\frac{1}{2}$ of the cost associated with certain benefit changes. ($\frac{1}{4}$ for police and dispatchers)
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POST RETIREMENT ADJUSTMENT

Police Union	In addition to normal pension benefits, the City will pay as a cost of living adjustment \$500 per year for 15 years, on a cumulative basis, to the first 2 employees who irrevocably notify the City and retire in each of the contract years commencing 10/1/2003, 2004, and 2005.
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

The following is three-year trend information for the City of Sturgis Employees' Retirement System:

	Actuarial Valuation December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual Pension Cost (APC)	1,739,597	\$ 1,437,413	\$ 1,101,164
Percentage of APC contributed	118%	94%	94%
Actuarial value of assets	47,369,804	45,968,634	45,375,025
Actuarial accrued liability (entry age)	50,314,340	47,243,463	45,635,562
(Under) Overfunded actuarial accrued liability	(2,944,536)	(1,274,829)	(260,537)
Funded ratio	94%	97%	99%
Covered payroll	18,671,016	19,515,461	19,158,737
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	(16%)	(6%)	(1%)

GASB 25 required supplementary information is present after the Notes to the Financial Statements. The following information relates to the GASB 25 disclosure:

Actuarial cost method - individual entry age normal cost
Amortization method - level percent of payroll, open and closed periods

Remaining amortization period as of December 31, 2005:

- Liabilities created by plan, assumption, or method changes-19 years closed
 - All other liabilities - 11 years open
- Asset valuation method - market value with 5 year smoothing
Principal actuarial assumptions (last revised for the 12/31/97 valuation):
- Net investment return* - 7.0%
 - Projected salary increases* - 4.5% to 17.5%
 - Cost of living adjustments - none

* includes pay inflation at 4.5%

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 11 - POST-EMPLOYMENT HEALTH CARE BENEFITS

The City provides certain health care benefits for retirees, as per the union contracts and the requirements of a local ordinance. Substantially all of the City's full-time employees may become eligible for those benefits if they retire from the City and receive a pension. The City covers the majority of the cost by purchasing health care insurance. Currently, 82 retirees are eligible for health care benefits of which 62 are enrolled. The cost of retiree health insurance coverage is recognized as an expense of the Employee Benefits Fund. For the fiscal year ended September 30, 2006, those costs totaled approximately \$375,000.

The Hospital provides certain health care benefits for retirees. Substantially all of the Hospital's employees may become eligible for those benefits if they reach normal retirement age while working for the Hospital. Currently, 71 retirees meet those eligibility requirements. The Hospital is self-insured for retirees' medical benefit claims. The hospital's net cost for providing retirees' health care benefits was \$782,393 (after retirees' contributions of \$87,753 for the year ended September 30, 2006.

NOTE 12 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis.

During the year ended September 30, 2006, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

NONE

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 13 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts if any, to be immaterial.

The Hospital has agreements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs to provide reimbursement to the Hospital at amounts different from its established rates. Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect of the accompanying financial statements.

The City is a defendant in various lawsuits. Although, the outcome of these lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

The Hospital (The City of Sturgis) has been named a defendant in several malpractice suits. At this time, it is premature to evaluate the likely outcomes, amount of settlements, if any, or whether they could exceed the insurance coverage. Management intends to vigorously defend these suits and does not expect any unfavorable impacts. Accordingly, an accrual has been made in the amount of \$43,509 in these financial statements for the deductible potentially payable by the Hospital on these malpractice suits.

NOTE 14 - UPCOMING REPORTING CHANGES

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidelines for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008 for the City of Sturgis including Sturgis Hospital.

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REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 4,127,326	\$4,127,326	\$3,988,363	\$ (138,963)
Special assessments	-	15,000	15,488	488
Licenses and permits	50,500	50,500	49,742	(758)
Federal grants	-	20,000	21,545	1,545
State grants	3,600	3,600	5,393	1,793
State shared revenue	1,000,000	1,095,000	1,083,394	(11,606)
Charges for services	38,000	38,000	36,787	(1,213)
Fines and forfeits	38,500	38,500	50,854	12,354
Interest income	300,500	550,500	607,571	57,071
Administrative reimbursement	784,158	784,158	772,230	(11,928)
Other	<u>85,800</u>	<u>105,800</u>	<u>102,304</u>	<u>(3,496)</u>
Total revenue	6,428,384	6,828,384	6,733,671	(94,713)
EXPENDITURES				
Legislative	50,254	40,254	35,974	4,280
General government	1,110,470	1,128,070	1,113,324	14,746
Public safety	3,375,792	3,225,392	3,293,271	(67,879)
Public works	387,080	403,080	378,659	24,421
Recreation and cultural	-	41,667	36,667	5,000
Capital outlay	<u>68,000</u>	<u>23,000</u>	<u>-</u>	<u>23,000</u>
Total expenditures	<u>4,991,596</u>	<u>4,861,463</u>	<u>4,857,895</u>	<u>3,568</u>
EXCESS OF REVENUE OVER EXPENDITURES				
	1,436,788	1,966,921	1,875,776	(91,145)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(1,355,367)</u>	<u>(1,784,400)</u>	<u>(1,784,400)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	81,421	182,521	91,376	(91,145)
FUND BALANCE - BEGINNING OF YEAR				
	<u>1,531,363</u>	<u>1,531,363</u>	<u>1,531,363</u>	<u>-</u>
FUND BALANCE - END OF YEAR				
	<u>\$ 1,612,784</u>	<u>\$1,713,884</u>	<u>\$1,622,739</u>	<u>\$ (91,145)</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
State grants	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	19,186	19,186
State shared revenue	628,696	628,696	585,882	(42,814)
Other	<u>4,000</u>	<u>4,000</u>	<u>12,427</u>	<u>8,427</u>
Total revenue	632,696	632,696	617,495	(15,201)
EXPENDITURES				
Public works	<u>716,836</u>	<u>824,336</u>	<u>655,096</u>	<u>169,240</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(84,140)	(191,640)	(37,601)	154,039
OTHER FINANCING (USES)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(84,140)	(191,640)	(37,601)	154,039
FUND BALANCE - BEGINNING OF YEAR	<u>261,647</u>	<u>261,647</u>	<u>261,647</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 177,507</u>	<u>\$ 70,007</u>	<u>\$ 224,046</u>	<u>\$ 154,039</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 230,000	\$ 230,000	\$ 245,408	\$ 15,408
Special assessments	15,000	15,000	8,177	(6,823)
State shared revenue	212,267	212,267	204,561	(7,706)
Interest income	8,000	8,000	1,550	(6,450)
Other	<u>-</u>	<u>-</u>	<u>116</u>	<u>116</u>
Total revenue	465,267	465,267	459,812	(5,455)
EXPENDITURES				
Public works	<u>752,115</u>	<u>804,615</u>	<u>761,210</u>	<u>43,405</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(286,848)	(339,348)	(301,398)	37,950
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(286,848)	(339,348)	(301,398)	37,950
FUND BALANCE - BEGINNING OF YEAR	<u>684,360</u>	<u>684,360</u>	<u>684,360</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 397,512</u>	<u>\$ 345,012</u>	<u>\$ 382,962</u>	<u>\$ 37,950</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

Schedule of Funding Progress
(Dollars represented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/96*	\$ 32,663	\$ 28,121	\$ (4,542)	116.2%	13,114	-34.6%
12/31/97#	35,079	29,451	(5,627)	119.1%	13,686	-41.1%
12/31/98	37,873	30,846	(7,026)	122.8%	15,422	-45.6%
12/31/99	40,865	33,326	(7,539)	122.6%	16,648	-45.3%
12/31/00	43,131	34,925	(8,207)	123.5%	16,590	-49.5%
12/31/01	44,778	38,728	(6,051)	115.6%	17,471	-34.6%
12/31/02	45,002	41,198	(3,804)	109.2%	17,554	-21.7%
12/31/03#	45,375	45,636	261	99.4%	19,158	1.4%
12/31/04#	45,969	47,243	1,275	97.3%	19,515	6.5%
12/31/05	47,370	50,314	2,944	94.1%	18,671	15.8%

* plan amended # certain assumptions revised

Schedule of Employer Contributions

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1996	\$1,206,595	88.6%
1997	1,099,179	103.6%
1998	1,037,458	96.6%
1999	770,526	97.8%
2000	713,005	107.6%
2001	733,760	94.1%
2002	720,630	88.1%
2003	1,101,164	93.9%
2004	1,437,413	94.8%
2005	1,739,597	117.7%

For information regarding contribution percentage rates, assumptions, amortization method, etc., see Note 10 on pages 46, 47, 48, and 49.

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2006

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 427,976	\$ 315,596	\$ 743,572
Investments	-	577,564	577,564
Receivables			
Accounts	10,841	180	11,021
Special assessments	-	-	-
Interest	-	6,035	6,035
Due from other funds	-	-	-
Due from component unit	31,454	-	31,454
Due from other governmental units	-	-	-
Prepaid expenses	15,319	-	15,319
Inventory	<u>16,237</u>	<u>-</u>	<u>16,237</u>
Total assets	<u>\$ 501,827</u>	<u>\$ 899,375</u>	<u>\$ 1,401,202</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 49,381	\$ -	\$ 49,381
Due to other funds	-	-	-
Accrued expenses	35,870	-	35,870
Deferred revenue	<u>108,502</u>	<u>-</u>	<u>108,502</u>
Total liabilities	193,753	-	193,753
Fund Balance			
Reserved for endowments	-	874,020	874,020
Unreserved, undesignated	<u>308,074</u>	<u>25,355</u>	<u>333,429</u>
Total fund balance	<u>308,074</u>	<u>899,375</u>	<u>1,207,449</u>
Total liabilities and fund balance	<u>\$ 501,827</u>	<u>\$ 899,375</u>	<u>\$ 1,401,202</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue			
License and permits	\$ 19,137	\$ -	\$ 19,137
State shared revenue	6,465	-	6,465
State grants	-	-	-
Charges for services	967,053	16,856	983,909
Fines and forfeits	12,696	-	12,696
Interest income	625	13,864	14,489
Other	<u>171,184</u>	<u>-</u>	<u>171,184</u>
Total revenue	1,177,160	30,720	1,207,880
Expenditures			
General government	285,953	-	285,953
Public safety	115,858	-	115,858
Recreation and cultural	1,725,469	-	1,725,469
Capital outlay	-	-	-
Debt service	<u>46,075</u>	<u>-</u>	<u>46,075</u>
Total expenditures	<u>2,173,355</u>	<u>-</u>	<u>2,173,355</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(996,195)	30,720	(965,475)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	983,872	-	983,872
Operating transfers out	<u>-</u>	<u>(23,439)</u>	<u>(23,439)</u>
Total other financing sources (uses)	<u>983,872</u>	<u>(23,439)</u>	<u>960,433</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(12,323)	7,281	(5,042)
FUND BALANCE - BEGINNING OF YEAR	<u>320,397</u>	<u>892,094</u>	<u>1,212,491</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 308,074</u></u>	<u><u>\$ 899,375</u></u>	<u><u>\$ 1,207,449</u></u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2006

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 27,187	\$ 7,329	\$ 50,482	\$ 62,533
Receivables				
Accounts	-	-	1,426	500
Interest	-	-	-	-
Due from other funds	-	-	-	-
Due from component unit	-	31,454	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 27,187</u>	<u>\$ 38,783</u>	<u>\$ 51,908</u>	<u>\$ 63,033</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 45	\$ 80	\$ 6,106	\$ 1,930
Due to other funds	-	-	-	-
Accrued expenses	2,478	601	6,756	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	2,523	681	12,862	1,930
Fund Balance				
Unreserved, undesignated	<u>24,664</u>	<u>38,102</u>	<u>39,046</u>	<u>61,103</u>
Total liabilities and fund balance	<u>\$ 27,187</u>	<u>\$ 38,783</u>	<u>\$ 51,908</u>	<u>\$ 63,033</u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Library Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ 16,875	\$ 99,452	\$ 103,350	\$ -	\$ 60,768	\$ 427,976
-	8,915	-	-	-	10,841
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	31,454
-	-	-	-	-	-
-	-	15,319	-	-	15,319
-	16,027	-	-	210	16,237
<u>\$ 16,875</u>	<u>\$ 124,394</u>	<u>\$ 118,669</u>	<u>\$ -</u>	<u>\$ 60,978</u>	<u>\$ 501,827</u>
\$ 4,560	\$ 21,281	\$ 6,787	\$ -	\$ 8,592	\$ 49,381
-	-	-	-	-	-
5,408	14,212	763	-	5,652	35,870
-	32,666	57,315	-	18,521	108,502
9,968	68,159	64,865	-	32,765	193,753
6,907	56,235	53,804	-	28,213	308,074
<u>\$ 16,875</u>	<u>\$ 124,394</u>	<u>\$ 118,669</u>	<u>\$ -</u>	<u>\$ 60,978</u>	<u>\$ 501,827</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2006

	Building Department <u>Fund</u>	Housing Department <u>Fund</u>	Cemetery <u>Fund</u>	Drug Enforcement <u>Fund</u>
Revenue				
License and permits	\$ 19,137	\$ -	\$ -	\$ -
State shared revenue	-	-	-	-
State grants	-	-	-	-
Charges for services	-	-	92,452	-
Fines and forfeits	-	-	-	5,509
Interest income	-	-	-	-
Other	-	-	1,572	24,179
	<u>19,137</u>	<u>-</u>	<u>94,024</u>	<u>29,688</u>
Total revenue	19,137	-	94,024	29,688
Expenditures				
General government	-	46,231	239,722	-
Public safety	96,898	-	-	18,960
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
	<u>96,898</u>	<u>46,231</u>	<u>239,722</u>	<u>18,960</u>
Total expenditures	96,898	46,231	239,722	18,960
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(77,761)	(46,231)	(145,698)	10,728
OTHER FINANCING SOURCES (USES)				
Operating transfers in	80,000	10,000	113,439	25,000
Operating transfers out	-	-	-	-
	<u>80,000</u>	<u>10,000</u>	<u>113,439</u>	<u>25,000</u>
Total other financing sources (uses)	80,000	10,000	113,439	25,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	2,239	(36,231)	(32,259)	35,728
FUND BALANCE - BEGINNING OF YEAR	<u>22,425</u>	<u>74,333</u>	<u>71,305</u>	<u>25,375</u>
FUND BALANCE - END OF YEAR	<u>\$ 24,664</u>	<u>\$ 38,102</u>	<u>\$ 39,046</u>	<u>\$ 61,103</u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Library Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,137
-	-	-	6,465	-	6,465
-	-	-	-	-	-
75,902	423,187	66,542	6,739	302,231	967,053
-	-	-	7,187	-	12,696
-	-	-	625	-	625
<u>24,145</u>	<u>11,301</u>	<u>73,151</u>	<u>5,333</u>	<u>31,503</u>	<u>171,184</u>
100,047	434,488	139,693	26,349	333,734	1,177,160
-	-	-	-	-	285,953
-	-	-	-	-	115,858
402,587	618,210	128,395	254,585	321,692	1,725,469
-	-	-	-	-	-
<u>-</u>	<u>46,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,075</u>
<u>402,587</u>	<u>664,285</u>	<u>128,395</u>	<u>254,585</u>	<u>321,692</u>	<u>2,173,355</u>
(302,540)	(229,797)	11,298	(228,236)	12,042	(996,195)
296,000	266,100	-	183,333	10,000	983,872
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>296,000</u>	<u>266,100</u>	<u>-</u>	<u>183,333</u>	<u>10,000</u>	<u>983,872</u>
(6,540)	36,303	11,298	(44,903)	22,042	(12,323)
<u>13,447</u>	<u>19,932</u>	<u>42,506</u>	<u>44,903</u>	<u>6,171</u>	<u>320,397</u>
<u>\$ 6,907</u>	<u>\$ 56,235</u>	<u>\$ 53,804</u>	<u>\$ -</u>	<u>\$ 28,213</u>	<u>\$ 308,074</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2006

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
ASSETS			
Cash and cash equivalents	\$ 264,241	\$ 51,355	\$ 315,596
Investments	577,564	-	577,564
Receivables			
Accounts	180	-	180
Interest	6,035	-	6,035
Due from other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 848,020</u>	<u>\$ 51,355</u>	<u>\$ 899,375</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to other governmental units	-	-	-
Due to others	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	-	-	-
Fund Balance			
Reserved for endowments	848,020	26,000	874,020
Unreserved, undesignated	-	25,355	25,355
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>848,020</u>	<u>51,355</u>	<u>899,375</u>
Total liabilities and fund balance	<u>\$ 848,020</u>	<u>\$ 51,355</u>	<u>\$ 899,375</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2006

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Charges for services	\$ 16,856	\$ -	\$ 16,856
Investment income	<u>13,864</u>	<u>-</u>	<u>13,864</u>
Total revenue	30,720	-	30,720
Expenditures			
General government	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES	30,720	-	30,720
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(23,439)</u>	<u>-</u>	<u>(23,439)</u>
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	7,281	-	7,281
FUND BALANCE - BEGINNING OF YEAR	<u>840,739</u>	<u>51,355</u>	<u>892,094</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 848,020</u></u>	<u><u>\$ 51,355</u></u>	<u><u>\$ 899,375</u></u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

<u>ASSETS</u>	<u>Economic Development Fund</u>	<u>Economic Enhancement Fund</u>
CURRENT ASSETS		
Cash and equivalents	\$ 980,288	\$ 43,317
Receivables		
Notes - current portion	29,868	-
Accounts	-	-
Interest	-	-
Grants	-	-
Advances due from other funds	-	-
	<hr/>	<hr/>
Total current assets	1,010,156	43,317
NONCURRENT ASSETS		
Notes receivable	139,191	-
Advances due from other funds	-	-
Other assets	-	200,000
Capital assets, net of depreciation	-	-
	<hr/>	<hr/>
Total noncurrent assets	139,191	200,000
	<hr/>	<hr/>
Total assets	1,149,347	243,317
	<hr/>	<hr/>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	-	22,224
Accounts payable	-	154
Accrued expenses	-	1,367
Due to other funds	-	-
	<hr/>	<hr/>
Total current liabilities	-	23,745
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	-	149,996
	<hr/>	<hr/>
Total liabilities	-	173,741
NET ASSETS		
Invested in capital assets, net of related debt	-	(172,220)
Unrestricted	1,149,347	241,796
	<hr/>	<hr/>
Total net assets	\$ 1,149,347	\$ 69,576
	<hr/>	<hr/>

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 20,492	\$ 42,180	\$ -	\$ 1,086,277
-	-	-	29,868
-	653	143,045	143,698
-	-	-	-
-	-	-	-
<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
50,492	42,833	143,045	1,289,843
-	-	-	139,191
25,116	-	-	25,116
-	-	-	200,000
<u>-</u>	<u>-</u>	<u>111,890</u>	<u>111,890</u>
<u>25,116</u>	<u>-</u>	<u>111,890</u>	<u>476,197</u>
75,608	42,833	254,935	1,766,040
30,000	-	49,010	101,234
-	550	23,259	23,963
-	-	11,608	12,975
<u>-</u>	<u>-</u>	<u>64,556</u>	<u>64,556</u>
30,000	550	148,433	202,728
<u>40,000</u>	<u>-</u>	<u>55,634</u>	<u>245,630</u>
70,000	550	204,067	448,358
(70,000)	-	7,246	(234,974)
<u>75,608</u>	<u>42,283</u>	<u>43,622</u>	<u>1,552,656</u>
<u>\$ 5,608</u>	<u>\$ 42,283</u>	<u>\$ 50,868</u>	<u>\$ 1,317,682</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

	Economic Development Fund	Economic Enhancement Fund
OPERATING REVENUE		
Charges for services	\$ -	\$ -
Federal grants	-	-
State grants	-	5,586
Interest revenue	<u>2,926</u>	<u>-</u>
Total operating revenue	2,926	5,586
OPERATING EXPENSES		
Material, maintenance and other	-	78,004
General and administrative	-	64,141
Depreciation and amortization	-	-
Provision for loan losses	<u>-</u>	<u>-</u>
Total operating expenses	<u>-</u>	<u>142,145</u>
OPERATING INCOME (LOSS)	2,926	(136,559)
NONOPERATING REVENUE (EXPENSES)		
Investment income	-	-
Interest expense	<u>-</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>-</u>	<u>-</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	2,926	(136,559)
OTHER FINANCING SOURCES		
Transfers in	<u>-</u>	<u>69,500</u>
CHANGE IN NET ASSETS	2,926	(67,059)
NET ASSETS - BEGINNING OF YEAR	<u>1,146,421</u>	<u>136,635</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 1,149,347</u>	<u>\$ 69,576</u>

<u>Grobhiser Building Fund</u>	<u>Area Network Fund</u>	<u>EMS/ Ambulance Fund</u>	<u>Combined Totals</u>
\$ 5,162	\$ 9,160	\$ 722,076	\$ 736,398
-	-	-	-
-	-	-	5,586
-	-	-	2,926
5,162	9,160	722,076	744,910
-	-	715,647	793,651
-	19,838	99,152	183,131
-	-	44,756	44,756
-	-	-	-
-	19,838	859,555	1,021,538
5,162	(10,678)	(137,479)	(276,628)
-	-	-	-
(5,900)	-	(4,205)	(10,105)
(5,900)	-	(4,205)	(10,105)
(738)	(10,678)	(141,684)	(286,733)
-	-	184,700	254,200
(738)	(10,678)	43,016	(32,533)
6,346	52,961	7,852	1,350,215
<u>\$ 5,608</u>	<u>\$ 42,283</u>	<u>\$ 50,868</u>	<u>\$ 1,317,682</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2006

	Economic Development Fund	Economic Enhancement Fund
Cash flows from operating activities		
Receipts from customers and users	\$ -	\$ -
Receipts from operating grants	-	61,649
Net loans (made) collected	4,774	-
Interest received on loans	2,926	-
Payments to employees and suppliers	<u>(750)</u>	<u>(142,563)</u>
Net cash provided by (used for) operating activities	6,950	(80,914)
Cash flows from non-capital financing activities		
Transfers in	-	69,500
Cash flows from capital and related financing activities		
Principal paid on debt	-	(22,224)
Interest paid on debt	-	-
Customer deposits	-	-
Acquisition of capital assets	-	-
Proceeds from issuance of debt	-	-
Receipts from interfund advances	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	-	(22,224)
Cash flows from investing activities		
Interest received on investments	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	6,950	(33,638)
Cash - Beginning of Year	<u>973,338</u>	<u>76,955</u>
Cash - End of Year	<u><u>\$ 980,288</u></u>	<u><u>\$ 43,317</u></u>

Continued on next page

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 5,162	\$ 12,014	\$ 930,546	\$ 947,722
-	-	-	61,649
-	-	-	4,774
-	-	-	2,926
-	(21,792)	(1,082,068)	(1,247,173)
5,162	(9,778)	(151,522)	(230,102)
-	-	184,700	254,200
(30,000)	-	(47,941)	(100,165)
(5,900)	-	(4,205)	(10,105)
-	-	-	-
-	-	-	-
-	-	-	-
32,084	-	-	32,084
(3,816)	-	(52,146)	(78,186)
-	-	-	-
1,346	(9,778)	(18,968)	(54,088)
19,146	51,958	18,968	1,140,365
<u>\$ 20,492</u>	<u>\$ 42,180</u>	<u>\$ -</u>	<u>\$ 1,086,277</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2006

	Economic Development <u>Fund</u>	Economic Enhancement <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 2,926	\$ (136,559)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	-	-
Provision for loan losses	-	-
(Increase) decrease in		
Accounts receivable	-	-
Loans receivable	4,774	-
Interest receivable	-	-
Grants receivable	-	56,063
Increase (decrease) in		
Accounts payable	(750)	(19)
Accrued expenses	-	(399)
Due to other funds	-	-
Net cash provided by (used for) operating activities	<u>\$ 6,950</u>	<u>\$ (80,914)</u>

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 5,162	\$ (10,678)	\$ (137,479)	\$ (276,628)
-	-	44,756	44,756
-	-	-	-
-	2,854	208,470	211,324
-	-	-	4,774
-	-	-	-
-	-	-	56,063
-	(1,954)	19,388	16,665
-	-	(2,842)	(3,241)
-	-	(283,815)	(283,815)
<u>\$ 5,162</u>	<u>\$ (9,778)</u>	<u>\$ (151,522)</u>	<u>\$ (230,102)</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and equivalents	\$ 1,053,832	\$ 202,759	\$ 739,272	\$ 1,995,863
Investments	-	9,305	-	9,305
Receivables	3,667	2,693	-	6,360
Due from other funds	-	215,133	-	215,133
Inventory	<u>7,457</u>	<u>-</u>	<u>-</u>	<u>7,457</u>
Total current assets	1,064,956	429,890	739,272	2,234,118
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,719,964</u>	<u>-</u>	<u>-</u>	<u>1,719,964</u>
Total assets	2,784,920	429,890	739,272	3,954,082
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Current portion of long-term debt	108,966	-	-	108,966
Accounts payable	162,279	32,000	150,000	344,279
Accrued expenses	1,916	-	-	1,916
Due to other funds	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Total current liabilities	273,161	32,000	300,000	605,161
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>609,712</u>	<u>-</u>	<u>-</u>	<u>609,712</u>
Total liabilities	882,873	32,000	300,000	1,214,873
NET ASSETS				
Invested in capital assets, net of related debt	1,001,286	-	-	1,001,286
Unrestricted	<u>900,761</u>	<u>397,890</u>	<u>439,272</u>	<u>1,737,923</u>
Total net assets	<u>\$ 1,902,047</u>	<u>\$ 397,890</u>	<u>\$ 439,272</u>	<u>\$ 2,739,209</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 856,571	\$ 31,715	\$1,649,289	\$ 2,537,575
Other revenues	<u>14,680</u>	<u>2,363</u>	<u>251,353</u>	<u>268,396</u>
Total operating revenue	871,251	34,078	1,900,642	2,805,971
OPERATING EXPENSES				
Operating and administrative	451,852	-	19,044	470,896
Insurance premiums and claims	-	61,102	1,704,728	1,765,830
Depreciation	<u>315,197</u>	<u>-</u>	<u>-</u>	<u>315,197</u>
Total operating expenses	<u>767,049</u>	<u>61,102</u>	<u>1,723,772</u>	<u>2,551,923</u>
OPERATING INCOME (LOSS)	104,202	(27,024)	176,870	254,048
NONOPERATING REVENUE (EXPENSE)				
Interest revenue	-	3,643	21,980	25,623
Gain (loss) on sale of fixed assets	179,934	-	-	179,934
Interest expense	<u>(35,243)</u>	<u>-</u>	<u>-</u>	<u>(35,243)</u>
Total nonoperating revenue (expense)	<u>144,691</u>	<u>3,643</u>	<u>21,980</u>	<u>170,314</u>
CHANGE IN NET ASSETS	248,893	(23,381)	198,850	424,362
NET ASSETS - BEGINNING OF YEAR	<u>1,653,154</u>	<u>421,271</u>	<u>240,422</u>	<u>2,314,847</u>
NET ASSETS - END OF YEAR	<u>\$ 1,902,047</u>	<u>\$ 397,890</u>	<u>\$ 439,272</u>	<u>\$ 2,739,209</u>

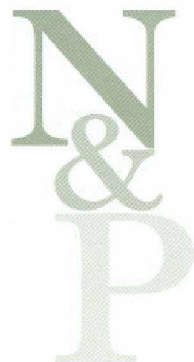
CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2006

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 11,013	\$ -	\$ 251,353	\$ 262,366
Receipts for internal services provided	856,571	31,715	1,649,289	2,537,575
Payments to suppliers	(243,261)	(96,904)	(1,623,772)	(1,963,937)
Payments to employees	<u>(55,026)</u>	<u>-</u>	<u>-</u>	<u>(55,026)</u>
Net cash provided by (used for) operating activities	569,297	(65,189)	276,870	780,978
Cash flows from capital and related financing activities				
Acquisition of capital assets	(691,421)	-	-	(691,421)
Proceeds from sale of capital assets	226,254	-	-	226,254
Proceeds from long-term debt	226,600	-	-	226,600
Principal paid on debt	(124,267)	-	-	(124,267)
Interest paid on debt	<u>(35,243)</u>	<u>-</u>	<u>-</u>	<u>(35,243)</u>
Net cash provided by (used for) capital and related financing activities	(398,077)	-	-	(398,077)
Cash flows from investing activities				
Purchase of investments	-	-	-	-
Proceeds from maturity of investments	-	7,371		7,371
Interest on investments	<u>-</u>	<u>3,643</u>	<u>21,980</u>	<u>25,623</u>
Net cash provided by (used for) investing activities	<u>-</u>	<u>11,014</u>	<u>21,980</u>	<u>32,994</u>
Net increase (decrease) in cash	171,220	(54,175)	298,850	415,895
Cash - Beginning of Year	<u>882,612</u>	<u>256,934</u>	<u>440,422</u>	<u>1,579,968</u>
Cash - End of Year	<u>\$ 1,053,832</u>	<u>\$ 202,759</u>	<u>\$ 739,272</u>	<u>\$ 1,995,863</u>

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CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2006

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 104,202	\$ (27,024)	\$ 176,870	\$ 254,048
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	315,197	-	-	315,197
(Increase) decrease in				
Receivables	(3,667)	(2,693)	-	(6,360)
Due from other funds	-	-	-	-
Inventory	38	-	-	38
Increase (decrease) in				
Accounts payable	154,246	(35,472)	100,000	218,774
Accrued expenses	(719)	-	-	(719)
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 569,297</u>	<u>\$ (65,189)</u>	<u>\$ 276,870</u>	<u>\$ 780,978</u>



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

To the City Commission
City of Sturgis

We have audited the financial statements of City of Sturgis as of and for the year ended September 30, 2006, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Commission, management and 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.

Norman & Paulsen, P.C.

March 8, 2007

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