

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2007

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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, 2007, 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 61 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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.

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.

Norman & Paulson, P.C.

February 28, 2008

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$1,773,543 during the fiscal year ended September 30, 2007, which represents a 2.5 percent increase in net assets from \$71,976,346 at the beginning of the year to \$73,749,889 at the end of the year. Included in the City's total net assets are the Hospital Fund and the Electric Utility Fund. The Hospital's net assets decreased by \$99,888 to \$17,009,420. The Electric Utility's net assets increased by \$1,060,799 to \$31,002,446.

The City's Governmental Funds reflected a total fund balance at September 30, 2007 of \$4,162,817, which was an increase of \$235,574 from the prior year end.

The City's property tax rate has remained at \$10.82 per \$1,000 of taxable valuation.

State revenue sharing continued to be cut by the State of Michigan. The decrease in State revenue sharing in the General Fund was \$32,263 or 3 percent compared to the prior year.

The total Governmental Fund expenditures for the year ended September 30, 2007, amounted to \$8,899,942, of which \$3,607,164 (40 percent) was for public safety, \$2,005,515 (22 percent) was for public works, \$1,768,114 (20 percent) was for recreation and cultural, and \$1,384,668 (16 percent) was for general government.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)					
	Governmental Funds		Enterprise Funds		
	2007	2006	2007	2006	
Assets	\$ 7,892	\$ 7,673	\$ 87,793	\$ 86,597	
Liabilities	3,729	3,746	30,824	31,248	
Fund Equity					
Invested in capital assets, net of related debt	-	-	34,179	31,648	
Retained Earnings					
Restricted	-	-	1,600	2,100	
Unreserved	-	-	21,190	21,601	
Fund Balances					
Reserved	890	874	-	-	
Unreserved	<u>3,273</u>	<u>3,053</u>	<u>-</u>	<u>-</u>	
Total Fund Equity	<u>\$ 4,163</u>	<u>\$ 3,927</u>	<u>\$ 56,969</u>	<u>\$ 55,349</u>	

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 6.0 percent or \$235,574 from a year ago. In contrast the prior years governmental fund equity increased by 6.4 percent or \$237,382.

The City's enterprise fund equity increased by 2.9 percent or \$1,620,261 from a year ago. In contrast the prior years enterprise fund equity increased by 2.6 percent or \$1,415,607.

The following table shows, in a condensed format, the net assets of the current date as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 9,178	\$ 9,013	\$ 31,616	\$ 31,080
Capital assets	<u>11,249</u>	<u>11,506</u>	<u>55,206</u>	<u>54,964</u>
Total assets	20,427	20,519	86,822	86,044
Long-term debt outstanding	833	944	20,726	22,173
Other liabilities	<u>3,921</u>	<u>4,048</u>	<u>8,019</u>	<u>7,422</u>
Total liabilities	4,754	4,992	28,745	29,595
Net assets				
Invested in capital assets, net of related debt	10,416	10,562	34,481	32,791
Restricted	889	874	1,600	2,100
Unrestricted	<u>4,368</u>	<u>4,091</u>	<u>21,996</u>	<u>21,558</u>
Total net assets	<u>\$ 15,673</u>	<u>\$ 15,527</u>	<u>\$ 58,077</u>	<u>\$ 56,449</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
Revenue				
Property taxes	\$ 2,928	\$ 2,834	\$ -	\$ -
In lieu of taxes	1,421	1,400	-	-
Special assessments	20	24	-	-
Licenses and permits	74	69	-	-
Grants	35	46	1,170	560
State shared revenues	1,850	1,880	-	-
Charges for services	1,185	1,021	60,493	58,174
Fines and forfeits	55	64	-	-
Interest income	770	624	407	380
Administrative reim.	807	772	-	-
Other	305	285	960	837
Bed license - sale	-	-	1,740	-
Transfers	<u>(314)</u>	<u>(334)</u>	<u>314</u>	<u>334</u>
Total revenue	9,136	8,685	65,084	60,285
Program expenses				
General government	1,418	1,435	-	-
Public safety	3,607	3,409	-	-
Public works	2,006	1,795	-	-
Recreation and culture	1,768	1,763	-	-
Health and welfare	31	-	-	-
Capital outlay	18	-	-	-
Debt service	52	46	-	-
Hospital activity	-	-	37,725	36,059
Electric system	-	-	16,594	13,987
Sewer system	-	-	1,149	1,142
Water system	-	-	734	702
EMS/Ambulance activity	-	-	541	815
Other	-	-	14	-
Loan loss provision	-	-	68	-
In lieu of taxes	-	-	1,421	1,400
Depreciation and amortization	-	-	4,240	3,966
Interest expense	<u>-</u>	<u>-</u>	<u>978</u>	<u>798</u>
Total expenses	<u>8,900</u>	<u>8,448</u>	<u>63,464</u>	<u>58,869</u>
Excess (Deficiency)	<u>\$ 236</u>	<u>\$ 237</u>	<u>\$ 1,620</u>	<u>\$ 1,416</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues				
Program revenues				
Charges for services	\$ 1,723	\$ 1,712	\$ 62,150	\$ 59,687
Operating grants and contributions	925	970	70	-
Capital grants and contributions	-	-	1,099	555
General revenues				
Property taxes	2,928	2,834	-	-
State shared revenues	1,051	1,090	-	-
Unrestricted investment earnings	791	639	423	390
Miscellaneous	493	432	1,998	249
Payments in lieu of taxes	1,421	1,400	-	-
Transfers	<u>(314)</u>	<u>(334)</u>	<u>314</u>	<u>334</u>
Total revenues	9,018	8,743	66,054	61,215
Expenses				
General government	1,224	1,055	-	-
Public safety	3,841	3,635	-	-
Public works	1,815	1,526	-	-
Recreation and cultural	1,930	1,920	-	-
Unallocated	32	-	-	-
Interest on long-term debt	30	36	-	-
Hospital services	-	-	39,885	37,675
Electric system	-	-	19,742	17,086
Sewer system	-	-	1,999	2,006
Water system	-	-	1,167	1,070
Other	<u>-</u>	<u>-</u>	<u>1,634</u>	<u>1,851</u>
Total expenses	<u>8,872</u>	<u>8,172</u>	<u>64,427</u>	<u>59,688</u>
Change in net assets	<u>\$ 146</u>	<u>\$ 571</u>	<u>\$ 1,627</u>	<u>\$ 1,527</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2007, the net assets of governmental activities increased by \$146,067 or 1 percent of beginning net assets. The net increase was consistent with prior years.

Business-Type Activities

For the year ended September 30, 2007, the net assets of business-type activities increased by \$1,627,476 or 3 percent of beginning net assets. This increase was comprised of the following by specific activity:

	Increase (Decrease)
Hospital services	\$ (99,888)
Electric system	1,060,799
Sewer system	825,099
Water system	(70,391)
Other	<u>(88,143)</u>
Total	<u>\$ 1,627,476</u>

The Hospital's decrease in net assets resulted from an operating loss of approximately \$1,725,000, interest expense on debt obligations of \$592,000, investment and other income of \$477,000, and a gain on the one time sale of bed licenses of \$1,740,000.

The Electric system's increase in net assets of \$1,061,000 is down from the prior year increase of \$1,672,000 primarily due to the increased cost of purchased power. The increase for 2007 is comparable to 2005 and 2004.

The Sewer system's increase in net assets of \$825,000 is comprised of a loss of \$98,000 before capital contributions of \$923,000 which is an improvement over the prior year loss of \$309,000 and the 2005 loss of \$392,000. This improvement in the operating loss is a result of utility rate increases.

The Water system's decrease in net assets of \$70,000 is comparable to recent prior years. The City continues to increase utility rates in an attempt to reverse this trend.

Other decrease in net assets includes the decrease of \$51,000 in the EMS/Ambulance system which was eliminated during 2007.

Component Units

The City includes two other entities in its report - the Sturgis Downtown Development Authority and the Sturgis Housing Development Corporation. Although legally separate, these "component units" are important because the City is financially accountable for them.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's Funds

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2007 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, and Capital Project Fund.

The General fund pays for most of the City's governmental services. The primary services provided include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes, state shared revenues, and an administrative reimbursement charge to other funds and City operations.

The Major Street Fund and Local Street Fund are funded primarily from State Act 51 revenue sharing and a County wide tax mileage. The primary services provided are the construction and maintenance of major and local streets.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted an increase of \$6,608 in the original budget and an increase of \$72,668 in the amended budget. Actual operating results ended up as a increase in fund balance of \$297,358.

The original budget was amended for:

Decrease in legislative expenditures	\$	10,000
Decrease in general governmental expenditures		30,000
Increase in public safety expenditures		86,000
Increase in public works expenditures		95,000
Increase in health and welfare expenditures		21,000
Decrease in recreation and cultural expenditures		108,060

The significant budget-to-actual differences are as follows:

The public works expenditures were under the budgeted amount due to projects deferred to future years.

The public safety expenditures were over the budgeted amount due to fire department wages originally scheduled to be charged to the EMS/Ambulance system.

Capital Assets and Debt Administration

During the year ended September 30, 2007, the total capital assets of the City increased by \$4,478,000. Additional detail relating to the asset additions follows:

The Hospital capital assets increased by \$1,096,000, which was all financed internally.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Electric Utility System capital assets increased by \$970,000, which was all financed internally.

The Sewer Utility System capital assets increased by \$1,067,000, of which \$923,000 was financed with capital grants and the balance was financed internally.

The Water Utility System capital assets increased by \$1,045,000, which was financed with additional debt of \$72,000 and an internal loan from the Electric Utility Fund.

The Motor Vehicle and Equipment Fund capital assets increased by \$300,000 which was financed with built up reserves.

During the year ended September 30, 2007, the total debt obligations of the City increased by additional borrowings of \$72,000 and decreased by principal payments of \$1,629,000. Total debt obligations at September 30, 2007 amounted to \$21,559,000.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Sturgis is \$24,740,000 which is significantly in excess of the City's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The City Commission has adopted a conservative budget for 2007-2008 wishing to retain or attempt to increase fund balance in all governmental funds and retain the City's current below maximum tax levy. It is anticipated that the increase in General Fund balance at September 30, 2007, approximately \$300,000 will need to be appropriated for the repair of streets, sidewalk work that was not completed in 2006-2007, and stepped up Code Enforcement efforts.

Additionally, for the third year in a row the City continues to dedicate 1 mill of the tax rate specifically for the repair of streets.

As part of a four year plan, based on a Water and Sewer Utility rate structure survey and cost of service study, it is anticipated that the City will again adjust upwards water and sewer rates by an estimated 9.5 percent effective June 1, 2008.

The economic position of the Hospital is closely tied to that of the local economy. Because of limited economic growth and increased demand for resources where reimbursement is limited by federal and state mandates, the Hospital continues to look at cost containment measures. However, there have been many investments made during both 2006 and 2007 in the physical plant and the medical staff which management believes will position the Hospital well for the future.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's Controller's office at 130 N. Nottawa, Sturgis, Michigan 49091.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and investments	\$ 8,241,557	\$ 16,780,097	\$25,021,654	\$ 295,522
Receivables, net	209,397	8,494,622	8,704,019	-
Receivables, long- term portion	643,148	1,438,252	2,081,400	-
Internal balances	-	-	-	-
Due from component units	6,477	-	6,477	-
Inventories, prepaid items and other assets	77,304	3,233,060	3,310,364	1,000
Restricted assets	-	1,669,366	1,669,366	-
Capital assets - net	<u>11,249,379</u>	<u>55,206,384</u>	<u>66,455,763</u>	<u>427,698</u>
Total assets	20,427,262	86,821,781	107,249,043	724,220
LIABILITIES				
Accounts payable	351,446	3,438,672	3,790,118	24,243
Accrued and other liabilities	163,505	3,413,793	3,577,298	-
Due to primary government	-	-	-	6,477
Deferred revenue	2,701,333	-	2,701,333	51,371
Debt obligations:				
Due within one year	115,768	1,279,249	1,395,017	13,731
Due in more than one year	717,429	19,446,479	20,163,908	250,511
Compensated absences	<u>704,433</u>	<u>1,167,047</u>	<u>1,871,480</u>	<u>-</u>
Total liabilities	<u>4,753,914</u>	<u>28,745,240</u>	<u>33,499,154</u>	<u>346,333</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,416,182	34,480,656	44,896,838	260,340
Restricted:				
Debt service	-	1,592,391	1,592,391	-
Endowments	889,512	-	889,512	-
Other purposes	-	7,347	7,347	-
Unrestricted	<u>4,367,654</u>	<u>21,996,147</u>	<u>26,363,801</u>	<u>117,547</u>
Total net assets	<u>\$ 15,673,348</u>	<u>\$ 58,076,541</u>	<u>\$73,749,889</u>	<u>\$ 377,887</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007

<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	\$ 1,224,201	\$ 671,815	\$ 4,250	\$ -
Public safety	3,841,409	76,195	30,906	-
Public works	1,815,464	-	798,519	-
Recreation and cultural	1,929,708	974,742	91,088	-
Unallocated	31,300	-	-	-
Interest on long-term debt	29,546	-	-	-
Total governmental activities	8,871,628	1,722,752	924,763	-
Business-type activities:				
Hospital	39,885,388	37,568,186	-	175,974
Electric	19,742,387	20,326,104	37,611	-
Sanitary sewer	1,998,665	1,900,061	-	923,371
Water	1,166,619	1,047,425	32,689	-
Other	1,633,648	1,308,116	-	-
Total business-type activities	64,426,707	62,149,892	70,300	1,099,345
Total primary government	<u>\$73,298,335</u>	<u>\$63,872,644</u>	<u>\$ 995,063</u>	<u>\$ 1,099,345</u>
Component units				
Downtown Development Authority	\$ 104,077	\$ 9,385	\$ 1,380	\$ -
Housing Development Corporation	-	-	-	-
Total component units	<u>\$ 104,077</u>	<u>\$ 9,385</u>	<u>\$ 1,380</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>
\$ (548,136)	\$ -	\$ (548,136)	\$ -
(3,734,308)	-	(3,734,308)	-
(1,016,945)	-	(1,016,945)	-
(863,878)	-	(863,878)	-
(31,300)	-	(31,300)	-
<u>(29,546)</u>	<u>-</u>	<u>(29,546)</u>	<u>-</u>
(6,224,113)	-	(6,224,113)	-
-	(2,141,228)	(2,141,228)	-
-	621,328	621,328	-
-	824,767	824,767	-
-	(86,505)	(86,505)	-
<u>-</u>	<u>(325,532)</u>	<u>(325,532)</u>	<u>-</u>
<u>-</u>	<u>(1,107,170)</u>	<u>(1,107,170)</u>	<u>-</u>
(6,224,113)	(1,107,170)	(7,331,283)	<u>\$ -</u>
			\$ (93,312)
			<u>-</u>
			(93,312)
2,927,879	-	2,927,879	82,402
1,051,131	-	1,051,131	-
791,171	423,485	1,214,656	6,125
493,824	1,996,651	2,490,475	95
1,420,685	-	1,420,685	-
<u>(314,510)</u>	<u>314,510</u>	<u>-</u>	<u>-</u>
<u>6,370,180</u>	<u>2,734,646</u>	<u>9,104,826</u>	<u>88,622</u>
146,067	1,627,476	1,773,543	(4,690)
<u>15,527,281</u>	<u>56,449,065</u>	<u>71,976,346</u>	<u>382,577</u>
<u>\$ 15,673,348</u>	<u>\$ 58,076,541</u>	<u>\$73,749,889</u>	<u>\$ 377,887</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2007**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 4,646,640	\$ 70,793	\$ 319,186
Investments	-	-	-
Receivables			
Accounts	62,211	-	-
Property taxes	38,233	-	-
Special assessments	13,444	22,912	606,792
Interest	15,151	-	-
Due from other funds	-	-	-
Due from component unit	-	-	-
Due from other governmental units	-	53,011	17,425
Prepaid expenses	-	-	-
Inventory	<u>24,748</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 4,800,427</u>	 <u>\$ 146,716</u>	 <u>\$ 943,403</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 108,761	\$ 7,286	\$ 4,464
Due to other funds	42,000	-	-
Accrued expenses	116,590	5,145	4,478
Deferred revenue	<u>2,612,979</u>	<u>22,912</u>	<u>606,792</u>
 Total liabilities	 2,880,330	 35,343	 615,734
 FUND BALANCE			
Reserved for endowments	-	-	-
Unreserved, undesignated	<u>1,920,097</u>	<u>111,373</u>	<u>327,669</u>
 Total fund balance	 <u>1,920,097</u>	 <u>111,373</u>	 <u>327,669</u>
 Total liabilities and fund balance	 <u>\$ 4,800,427</u>	 <u>\$ 146,716</u>	 <u>\$ 943,403</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>
\$ 258,023	\$ 224,621	\$ 817,533	\$ 6,336,796
-	-	580,430	580,430
-	-	16,034	78,245
-	-	-	38,233
-	-	-	643,148
-	-	7,278	22,429
-	42,000	-	42,000
-	-	6,477	6,477
-	-	-	70,436
-	-	32,834	32,834
-	-	15,839	40,587
<u>\$ 258,023</u>	<u>\$ 266,621</u>	<u>\$ 1,476,425</u>	<u>\$ 7,891,615</u>

\$ 217	\$ -	\$ 59,467	\$ 180,195
-	-	-	42,000
-	-	35,909	162,122
-	-	101,798	3,344,481
217	-	197,174	3,728,798
-	-	889,512	889,512
<u>257,806</u>	<u>266,621</u>	<u>389,739</u>	<u>3,273,305</u>
<u>257,806</u>	<u>266,621</u>	<u>1,279,251</u>	<u>4,162,817</u>
<u>\$ 258,023</u>	<u>\$ 266,621</u>	<u>\$ 1,476,425</u>	<u>\$ 7,891,615</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2007

Total governmental fund balances \$ 4,162,817

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	\$ 14,639,920	
Less accumulated depreciation	<u>(4,529,213)</u>	10,110,707

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	643,148
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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	(216,732)
Compensated absences	(704,433)

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>1,677,841</u>
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Net assets of governmental activities	<u>\$ 15,673,348</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, 2007**

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 2,670,743	\$ -	\$ 257,136
Special assessments	12,141	-	7,414
Licenses and permits	49,100	-	-
Federal grants	13,675	-	-
State grants	17,231	-	-
State shared revenue	1,051,131	593,411	205,108
Charges for services	111,195	-	-
Fines and forfeits	45,294	-	-
Investment income	728,702	-	2,166
Payments in lieu of taxes	1,420,685	-	-
Administrative reimbursement	807,307	-	-
Other	152,148	5,763	6,116
Total revenue	7,079,352	599,174	477,940
EXPENDITURES			
Legislative	33,547	-	-
General government	1,149,085	-	-
Public safety	3,468,418	-	-
Public works	490,316	711,847	533,233
Health and welfare	31,300	-	-
Recreation and cultural	110,000	-	-
Capital outlay	-	-	-
Debt services	-	-	-
Total expenditures	5,282,666	711,847	533,233
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,796,686	(112,673)	(55,293)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(1,499,328)	-	-
Total other financing sources (uses)	(1,499,328)	-	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	297,358	(112,673)	(55,293)
FUND BALANCE - BEGINNING OF YEAR	1,622,739	224,046	382,962
FUND BALANCE - END OF YEAR	\$ 1,920,097	\$ 111,373	\$ 327,669

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>
\$ -	\$ -	\$ -	\$ 2,927,879
-	-	-	19,555
-	-	25,000	74,100
-	-	4,250	17,925
-	-	-	17,231
-	-	-	1,849,650
-	-	1,074,082	1,185,277
-	-	9,988	55,282
-	9,105	30,198	770,171
-	-	-	1,420,685
-	-	-	807,307
-	-	140,937	304,964
-	9,105	1,284,455	9,450,026
-	-	-	33,547
-	-	235,583	1,384,668
-	-	138,746	3,607,164
270,119	-	-	2,005,515
-	-	-	31,300
-	-	1,658,114	1,768,114
-	17,764	-	17,764
-	-	51,870	51,870
<u>270,119</u>	<u>17,764</u>	<u>2,084,313</u>	<u>8,899,942</u>
(270,119)	(8,659)	(799,858)	550,084
263,158	50,000	898,678	1,211,836
-	-	(27,018)	(1,526,346)
<u>263,158</u>	<u>50,000</u>	<u>871,660</u>	<u>(314,510)</u>
(6,961)	41,341	71,802	235,574
<u>264,767</u>	<u>225,280</u>	<u>1,207,449</u>	<u>3,927,243</u>
<u>\$ 257,806</u>	<u>\$ 266,621</u>	<u>\$ 1,279,251</u>	<u>\$ 4,162,817</u>

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 4,143,269	\$ 3,806,495
Investments	1,747,347	5,469,913
Receivables		
Notes - Current portion	-	-
Accounts	5,697,349	2,289,948
Interest	-	87,454
Grants	-	-
Inventory	-	589,300
Due from other funds	-	897,879
Advances due from other funds	-	92,619
Other current assets	<u>1,429,505</u>	<u>-</u>
Total current assets	13,017,470	13,233,608
NONCURRENT ASSETS		
Unamortized bond costs	677,151	-
Restricted assets	76,975	1,592,391
Notes receivable	-	-
Special assessments	-	643,840
Advances due from other funds	-	1,046,440
Other assets	198,549	200,000
Capital assets, net of depreciation	<u>20,630,674</u>	<u>21,734,070</u>
Total noncurrent assets	<u>21,583,349</u>	<u>25,216,741</u>
Total assets	34,600,819	38,450,349

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>
\$ -	\$ -	\$ 1,024,416	\$ 8,974,180	\$ 1,912,988
-	-	-	7,217,260	-
-	-	8,418	8,418	-
230,920	165,532	-	8,383,749	7,506
-	-	549	88,003	-
-	7,000	-	7,000	-
90,387	46,504	-	726,191	5,547
-	-	-	897,879	280,133
-	-	20,117	112,736	-
-	-	-	1,429,505	-
321,307	219,036	1,053,500	27,844,921	2,206,174
-	-	-	677,151	-
-	-	-	1,669,366	-
-	-	92,995	92,995	-
372,349	329,068	-	1,345,257	-
-	-	-	1,046,440	-
-	-	-	398,549	-
7,988,005	4,365,633	-	54,718,382	1,626,674
8,360,354	4,694,701	92,995	59,948,140	1,626,674
8,681,661	4,913,737	1,146,495	87,793,061	3,832,848

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS - Continued
SEPTEMBER 30, 2007

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 292,025	\$ 462,224
Accounts payable	1,546,946	1,311,715
Accrued expenses	2,342,607	477,281
Customer deposits	-	121,926
Due to other funds	-	100,133
Advances due to other funds	112,736	-
Cost report settlements	<u>1,607,449</u>	<u>-</u>
Total current liabilities	5,901,763	2,473,279
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	11,285,096	4,974,624
Advances due to other funds	<u>404,540</u>	<u>-</u>
Total noncurrent liabilities	<u>11,689,636</u>	<u>4,974,624</u>
Total liabilities	17,591,399	7,447,903
NET ASSETS		
Invested in capital assets, net of related debt	9,053,553	16,449,070
Restricted	7,347	1,592,391
Unrestricted	<u>7,948,520</u>	<u>12,960,985</u>
Total net assets	<u>\$ 17,009,420</u>	<u>\$ 31,002,446</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 290,000	\$ 200,000	\$ 35,000	\$ 1,279,249	\$ 78,150
143,370	327,797	1,030	3,330,858	279,065
15,904	14,880	-	2,850,672	1,976
-	200	-	122,126	-
883,439	44,440	-	1,028,012	150,000
-	-	-	112,736	-
-	-	-	1,607,449	-
1,332,713	587,317	36,030	10,331,102	509,191
2,905,000	281,759	-	19,446,479	538,315
-	641,900	-	1,046,440	-
2,905,000	923,659	-	20,492,919	538,315
4,237,713	1,510,976	36,030	30,824,021	1,047,506
4,793,005	3,883,874	-	34,179,502	1,010,209
-	-	-	1,599,738	-
(349,057)	(481,113)	1,110,465	21,189,800	1,775,133
<u>\$ 4,443,948</u>	<u>\$ 3,402,761</u>	<u>\$ 1,110,465</u>	<u>\$ 56,969,040</u>	<u>\$ 2,785,342</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, 2007

Net assets - total enterprise funds	\$ 56,969,040
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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>1,107,501</u>
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Net assets of business-type activities	<u><u>\$ 58,076,541</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, 2007**

	<u>Hospital Fund</u>	<u>Electric Fund</u>
OPERATING REVENUE		
Charges for services	\$ 37,236,828	\$ 19,995,483
Federal grants	-	-
State grants	-	37,611
Interest revenue	-	-
Other	<u>331,358</u>	<u>330,621</u>
Total operating revenue	37,568,186	20,363,715
OPERATING EXPENSES		
Purchased power	-	12,642,062
Material, maintenance and other	23,880,204	2,310,522
General and administrative	13,845,235	1,642,180
Payments in lieu of taxes	-	1,235,234
Depreciation and amortization	1,567,596	1,676,414
Provision for loan losses	<u>-</u>	<u>-</u>
Total operating expenses	<u>39,293,035</u>	<u>19,506,412</u>
OPERATING INCOME (LOSS)	(1,724,849)	857,303
NONOPERATING REVENUE (EXPENSES)		
Investment income	228,753	149,077
Interest expense	(592,353)	(235,975)
(Loss) Gain on sale of assets	(5,597)	-
Sale of bed licenses	1,740,000	-
Other	<u>78,184</u>	<u>120,894</u>
Total non-operating revenue (expenses)	<u>1,448,987</u>	<u>33,996</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(275,862)	891,299
CAPITAL CONTRIBUTIONS	175,974	-
TRANSFERS IN	<u>-</u>	<u>169,500</u>
CHANGE IN NET ASSETS	(99,888)	1,060,799
NET ASSETS - BEGINNING OF YEAR	<u>17,109,308</u>	<u>29,941,647</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 17,009,420</u>	<u>\$ 31,002,446</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,863,050	\$ 1,039,529	\$ 358,486	\$ 60,493,376	\$ 2,684,816
-	-	-	-	-
-	32,689	-	70,300	-
-	-	8,624	8,624	-
<u>37,011</u>	<u>7,896</u>	<u>-</u>	<u>706,886</u>	<u>164,522</u>
1,900,061	1,080,114	367,110	61,279,186	2,849,338
-	-	-	12,642,062	-
889,234	450,363	486,889	28,017,212	1,850,660
259,874	283,860	67,744	16,098,893	610,717
111,431	74,020	-	1,420,685	-
659,938	291,638	44,756	4,240,342	392,242
<u>-</u>	<u>-</u>	<u>67,576</u>	<u>67,576</u>	<u>-</u>
<u>1,920,477</u>	<u>1,099,881</u>	<u>666,965</u>	<u>62,486,770</u>	<u>2,853,619</u>
(20,416)	(19,767)	(299,855)	(1,207,584)	(4,281)
108	152	29,346	407,436	37,049
(78,188)	(66,738)	(4,511)	(977,765)	(27,740)
-	-	34,652	29,055	41,105
-	-	-	1,740,000	-
<u>224</u>	<u>15,962</u>	<u>-</u>	<u>215,264</u>	<u>-</u>
<u>(77,856)</u>	<u>(50,624)</u>	<u>59,487</u>	<u>1,413,990</u>	<u>50,414</u>
(98,272)	(70,391)	(240,368)	206,406	46,133
923,371	-	-	1,099,345	-
<u>-</u>	<u>-</u>	<u>145,010</u>	<u>314,510</u>	<u>-</u>
825,099	(70,391)	(95,358)	1,620,261	46,133
<u>3,618,849</u>	<u>3,473,152</u>	<u>1,205,823</u>	<u>55,348,779</u>	<u>2,739,209</u>
<u>\$ 4,443,948</u>	<u>\$ 3,402,761</u>	<u>\$ 1,110,465</u>	<u>\$ 56,969,040</u>	<u>\$ 2,785,342</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, 2007

Changes in net assets - total enterprise funds \$ 1,620,261

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 7,215

Change in net assets of business-type activities \$ 1,627,476

See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2007**

	Hospital Fund	Electric Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 38,390,748	\$ 19,874,356
Receipts from operating grants	-	37,611
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	331,358	330,621
Payments to employees and suppliers	<u>(38,380,802)</u>	<u>(17,340,970)</u>
Net cash provided by (used for) operating activities	341,304	2,901,618
Cash flows from non-capital financing activities		
Contributions and other receipts	1,818,184	120,894
Transfers in	<u>-</u>	<u>169,500</u>
Net cash provided by non-capital financing activities	1,818,184	290,394
Cash flows from capital and related financing activities		
Principal paid on debt	(425,158)	(450,372)
Interest paid on debt	(592,353)	(242,962)
Receipts from interfund advances	-	108,354
Payments against interfund advances	(143,353)	(641,900)
Customer deposits	-	5,196
Acquisition of capital assets	(1,104,399)	(968,707)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	273,349	-
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(1,991,914)	(2,190,391)
Cash flows from investing activities		
Interest received on investments	228,753	131,085
Purchase of investments	-	(72,207)
Proceeds from maturity of investments-	<u>1,169,060</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>1,397,813</u>	<u>58,878</u>
Net increase (decrease) in cash	1,565,387	1,060,499
Cash - beginning of year	<u>2,654,857</u>	<u>2,745,996</u>
Cash - ending of year	<u>\$ 4,220,244</u>	<u>\$ 3,806,495</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,878,745	\$ 1,052,411	\$ 501,531	\$61,697,791	\$ 167,321
-	30,984	-	68,595	-
-	-	70	70	-
-	-	-	-	2,615,080
-	-	8,075	8,075	-
37,011	7,896	-	706,886	-
<u>(1,413,946)</u>	<u>(761,583)</u>	<u>(653,026)</u>	<u>(58,550,327)</u>	<u>(2,523,830)</u>
501,810	329,708	(143,350)	3,931,090	258,571
224	15,962	-	1,955,264	-
<u>-</u>	<u>-</u>	<u>145,010</u>	<u>314,510</u>	<u>-</u>
224	15,962	145,010	2,269,774	-
(280,000)	(190,000)	(139,644)	(1,485,174)	(102,213)
(78,188)	(61,229)	(4,511)	(979,243)	(27,740)
-	641,900	34,999	785,253	-
-	-	-	(785,253)	-
-	(100)	-	5,096	-
(1,067,325)	(1,045,478)	-	(4,185,909)	(299,533)
-	-	101,786	101,786	41,686
923,371	-	-	1,196,720	-
<u>-</u>	<u>71,759</u>	<u>-</u>	<u>71,759</u>	<u>-</u>
(502,142)	(583,148)	(7,370)	(5,274,965)	(387,800)
108	152	29,346	389,444	37,049
-	-	-	(72,207)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,169,060</u>	<u>9,305</u>
<u>108</u>	<u>152</u>	<u>29,346</u>	<u>1,486,297</u>	<u>46,354</u>
-	(237,326)	23,636	2,412,196	(82,875)
<u>-</u>	<u>237,326</u>	<u>1,000,780</u>	<u>6,638,959</u>	<u>1,995,863</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,024,416</u>	<u>\$ 9,051,155</u>	<u>\$ 1,912,988</u>

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2007

	<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)	\$ (1,724,849)	\$ 857,303
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	1,585,890	1,676,414
Provision for bad debts	2,730,198	100,000
Provision for purchased power adjustment	-	200,000
Provision for loan losses	-	-
(Increase) decrease in:		
Accounts receivable	(2,780,106)	(221,127)
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	-	(81,363)
Due from other funds	-	190,158
Other current assets	207,607	2,450
Increase (decrease) in:		
Accounts payable	(705,313)	114,176
Accrued expenses	(175,951)	28,607
Due to other funds	-	35,000
Cost report settlements	<u>1,203,828</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 341,304</u>	<u>\$ 2,901,618</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ (20,416)	\$ (19,767)	\$ (299,855)	\$ (1,207,584)	\$ (4,281)
659,938	291,638	44,756	4,258,636	392,242
-	-	-	2,830,198	-
-	-	-	200,000	-
-	-	67,576	67,576	-
15,695	12,883	143,045	(2,829,610)	(1,146)
-	-	70	70	-
-	-	(549)	(549)	-
-	(1,405)	-	(1,405)	-
8,167	29	-	(73,167)	1,910
-	-	-	190,158	(65,000)
-	-	-	210,057	-
(25,380)	6,364	(22,229)	(632,382)	(65,214)
3,848	(4,474)	(11,608)	(159,578)	60
(140,042)	44,440	(64,556)	(125,158)	-
-	-	-	1,203,828	-
<u>\$ 501,810</u>	<u>\$ 329,708</u>	<u>\$ (143,350)</u>	<u>\$ 3,931,090</u>	<u>\$ 258,571</u>

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2007**

	Pension Trust Fund	Agency Fund	Combining Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 263,596	\$ 154,596	\$ 418,192
Investments at market value			
Money market funds	16,049,893	-	16,049,893
U.S. Government agencies	175,313	-	175,313
Corporate bonds and notes	8,809,964	-	8,809,964
Common and preferred stock	34,458,230	-	34,458,230
Accounts receivable	274,507	-	274,507
Dividends and interest receivable	<u>85,860</u>	<u>-</u>	<u>85,860</u>
Total assets	60,117,363	154,596	60,271,959
<u>LIABILITIES</u>			
Accounts payable	34,120	-	34,120
Due to other governmental units	-	142,973	142,973
Other liabilities	<u>-</u>	<u>11,623</u>	<u>11,623</u>
Total liabilities	34,120	154,596	188,716
NET ASSETS			
Held in trust for pension benefits	<u>\$ 60,083,243</u>	<u>\$ -</u>	<u>\$ 60,083,243</u>

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

ADDITIONS

Contributions:

Employer	\$ 1,940,098
Employee	<u>165,701</u>

Total contributions	2,105,799
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Investment income:

Interest and dividends	1,877,327
Net appreciation (depreciation) in fair value of investments	4,392,302
Investment expenses	<u>(332,244)</u>

Total investment income	<u>5,937,385</u>
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Total additions	8,043,184
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DEDUCTIONS

Benefits	1,866,646
Administrative expense	<u>55,349</u>

Total deductions	<u>1,921,995</u>
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Net increase	6,121,189
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Net assets held in trust for pension benefits

Beginning of year	<u>53,962,054</u>
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End of year	<u>\$ 60,083,243</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, 2007

	<u>Downtown Development Authority</u>	<u>Sturgis Housing Development Corporation</u>	<u>Combined Totals</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 290,045	\$ 5,477	\$ 295,522
Other asset	-	1,000	1,000
Capital assets			
Other capital assets, net of depreciation	<u>427,698</u>	<u>-</u>	<u>427,698</u>
Total assets	717,743	6,477	724,220
<u>LIABILITIES</u>			
Construction payable	22,995	-	22,995
Accounts payable	1,248	-	1,248
Deferred revenue	51,371	-	51,371
Due to primary government	-	6,477	6,477
Debt Obligations:			
Due within one year	13,731	-	13,731
Due in more than one year	<u>250,511</u>	<u>-</u>	<u>250,511</u>
Total liabilities	339,856	6,477	346,333
NET ASSETS			
Invested in capital assets	260,340	-	260,340
Unrestricted	<u>117,547</u>	<u>-</u>	<u>117,547</u>
Total net assets	<u>\$ 377,887</u>	<u>\$ -</u>	<u>\$ 377,887</u>

See accompanying notes to the financial statements

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007

	<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	\$ 104,077	\$ 9,385	\$ 1,380	\$ (93,312)	\$ -	\$ (93,312)
Housing Development Corporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total discretely presented component units	<u>\$ 107,077</u>	<u>\$ 9,385</u>	<u>\$ 1,380</u>	(93,312)	-	(93,312)
General revenues						
Property taxes				82,402	-	82,402
Unrestricted						
investment earnings				6,125	-	6,125
Miscellaneous				<u>95</u>	<u>-</u>	<u>95</u>
Total general revenues				<u>88,622</u>	<u>-</u>	<u>88,622</u>
Change in net assets				(4,690)	-	(4,690)
Net assets - beginning of year				<u>382,577</u>	<u>-</u>	<u>382,577</u>
Net assets - end of year				<u>\$ 377,887</u>	<u>\$ -</u>	<u>\$ 377,887</u>

See accompanying notes to the financial statements

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007

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, 2007**

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, 2007**

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, 2007**

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, 2007**

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, 2007**

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, 2007**

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, 2007**

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 2007, 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 of 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, 2007**

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, 2007, was \$10.82 per \$1,000 of taxable valuation. The 2006 taxable value of the City was \$247,404,530.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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.

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.

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	7-40
Roads and sidewalks	7-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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.

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.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 2 - DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown in the basic financial statements for the City's deposits and investments is as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement caption:			
Primary Government:			
Cash and investments	\$ 9,968,453	\$15,053,201	\$ 25,021,654
Restricted assets	-	1,669,366	1,669,366
Component Units:			
Cash and Investments	295,522	-	295,522
Fiduciary Funds:			
Cash and cash equivalents	418,192	-	418,192
Investments	<u>-</u>	<u>59,493,400</u>	<u>59,493,400</u>
Total	<u>\$ 10,682,167</u>	<u>\$ 76,215,967</u>	<u>\$ 86,898,134</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retirement System is also authorized to invest a portion of its assets in stocks that are registered on a national securities exchange and mutual funds of diversified investment companies having assets greater than \$100 million.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2007, the maturities and credit quality rating of debt securities are as follows:

		Investment Maturities (In Years)				
	<u>Fair Value</u>	<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	<u>S&P Rating</u>
Primary Government						
Key Bank - Mutual Fund Sweep- Victory Fed. Money Market - Select	\$ 7,215,265					Not Rated
Citizens Bank - Treasury Portfolio Class B Money Market	959,607					Not Rated
Bank of New York - Fifth Third Institutional Govt. Money Market	742,391					Not Rated
Century Bank - Northern Trust- Northern Inst. Govt. Portfolio	578,461					Not Rated
Citizens Bank - SEI Daily Income Treasury II Money Market	116,636					Not Rated
Citizens Bank - Mutual Fund- SEI Inter-Duration Govt. Fund	82,701					Not Rated
Citizens Bank - Mutual Fund- Vanguard Short-Term Fed-Adm.	75,689					Not Rated
Edward Jones - Money Market	20,426					Not Rated
Linsco/Private Ledger - Money Market	449,138					Not Rated
Security Benefit - Money Market	141,067					Not Rated
U.S. Government Agencies	6,123,831	1,533,005	3,767,396	800,550	22,880	AAA-AA
Commercial Paper	<u>217,355</u>	217,355				A-1+
Total Primary Government	<u>16,722,567</u>					
Pension Trust Fund						
Sturgis Bank and Trust Co.						
Merrill Lynch Cash Management Acct.	16,049,893					Not Rated
U.S. Government Agencies	175,313				175,313	AAA
Corporate Bonds	366,060			210,576	155,484	AAA-BBB-
Asset Backed	8,443,904		2,784,240	657,312	5,002,352	AAA
Common Stocks	<u>34,458,230</u>					N/A
Total Pension Trust Fund	<u>59,493,400</u>					
Total Investments	<u>\$76,215,967</u>					

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2007, the City (including Sturgis Hospital) had \$10,739,100 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units had \$92,202 of bank deposits that were uninsured and uncollateralized. The City and the Component Units believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and the Component Units evaluates each financial institution with which they deposit funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the City's name.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit. All investments held at year end are reported above.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 75 percent special assessments, 4.5 percent property tax, 8.3 percent due from other governments, 9.6 percent accounts receivable, and 2.6 percent accrued interest. Business-type activities receivables are 84.6 percent due from customers, 1.0 percent loans, 13.5 percent special assessments, and 0.9 percent accrued interest.

Accounts receivable of the Hospital Fund are reported net of an allowance for uncollectible accounts of \$1,405,000 and net of an allowance for contractual adjustments and interim payment advances of \$4,369,000. 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 - 29%, Medicaid - 17%, Blue Cross - 11%, Other commercial payors - 13%, Patients - self pay - 30%.

Accounts receivable of the Electric Fund are reported net of an allowance for uncollectible accounts of \$200,000.

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)	\$ -	\$2,591,150	\$2,591,150
Special assessments not yet due (General, major and local street funds)	643,148	-	643,148
Customer deposits for future services/events (general and special revenue funds)	-	110,183	110,183
	<u>\$ 643,148</u>	<u>\$2,701,333</u>	<u>\$3,344,481</u>
Component Unit			
Property taxes levied and collected for next fiscal years operation Downtown Development Authority	\$ -	\$ 51,371	\$ 51,371

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2007:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Capital Projects	\$ 42,000	General	\$ 42,000
Electric	\$ 897,879	Sewer	\$ 868,439
		Water	29,440
	<u>\$ 897,879</u>		<u>\$ 897,879</u>
Workers' Compensation			
Self-Insurance	\$ 280,133	Employee Benefit	\$ 150,000
		Electric	100,133
		Sewer	15,000
		Water	15,000
	<u>\$ 280,133</u>		<u>\$ 280,133</u>
Totals	<u>\$1,220,012</u>		<u>\$1,220,012</u>
<u>Advances from/to other funds</u>			
Electric	\$ 641,900	Water	\$ 641,900
Electric	497,159	Hospital	497,159
Grobhiser Building	20,117	Hospital	20,117
Totals	<u>\$1,159,176</u>		<u>\$1,159,176</u>
Total Primary Government	<u>\$2,379,188</u>		<u>\$2,379,188</u>
<u>Due from/to Component Units</u>			
Primary government -		Component Unit -	
Housing Department	\$ 6,477	Housing Development Corporation	\$ 6,477
Total Reporting Entity	<u>\$2,385,665</u>		<u>\$2,385,665</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007

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, 2007:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 1,499,328	Municipal Street	\$ 263,158
		Capital Projects	50,000
		Building Department	71,000
		Cemetery	140,000
		Parks and Recreation	388,660
		Civic Auditorium	272,000
		Electric	169,500
		EMS/Ambulance	145,010
	<u>1,499,328</u>		<u>1,499,328</u>
Cemetery Trust	<u>27,018</u>	Cemetery	<u>27,018</u>
Total Primary Government	<u>\$ 1,526,346</u>		<u>\$ 1,526,346</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, 2007**

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2007, was as follows:

	Balance October 1, 2006	Additions	Disposals	Balance September 30, 2007
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	1,823,807	340,573	-	2,164,380
Land improvements	3,682,338	-	-	3,682,338
Buildings and improvements	6,908,797	-	-	6,908,797
Machinery and equipment	1,559,514	88,883	45,045	1,603,352
Vehicles	2,474,590	120,791	89,205	2,506,176
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	16,816,096	550,247	134,250	17,232,093
Accumulated depreciation				
Infrastructure	813,418	106,350	-	919,768
Land improvements	609,133	151,680	-	760,813
Buildings and improvements	1,310,884	201,506	-	1,512,390
Machinery and equipment	1,246,759	110,918	44,670	1,313,007
Vehicles	1,575,870	220,465	89,172	1,707,163
Office furniture and equipment	<u>320,224</u>	<u>15,609</u>	<u>-</u>	<u>335,833</u>
Subtotal	<u>5,876,288</u>	<u>806,528</u>	<u>133,842</u>	<u>6,548,974</u>
Net capital assets being depreciated	<u>10,939,808</u>			<u>10,683,119</u>
Net capital assets	<u><u>\$11,506,068</u></u>			<u><u>\$11,249,379</u></u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2006	Additions	Disposals/ Transfers	Balance Sept. 30, 2007
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 457,970	\$ 234,976	\$ -	\$ 692,946
Construction in progress	<u>-</u>	<u>1,866,989</u>	<u>-</u>	<u>1,866,989</u>
Subtotal	457,970	2,101,965	-	2,559,935
Capital assets, being depreciated:				
Land improvements	839,381	20,556	-	859,937
Buildings, improvements and system	101,956,810	2,153,619	-	104,110,429
Machinery and equipment	1,813,643	46,130	46,102	1,813,671
Vehicles	1,257,522	51,776	235,213	1,074,085
Office furniture and equipment	<u>16,891,909</u>	<u>287,743</u>	<u>8,618</u>	<u>17,171,034</u>
Subtotal	122,759,265	2,559,824	289,933	125,029,156
Accumulated depreciation				
Land improvements	480,727	19,694	-	500,421
Buildings, improvements and system	52,809,425	3,323,608	-	56,133,033
Machinery and equipment	1,214,745	65,645	37,902	1,242,488
Vehicles	752,261	125,379	176,103	701,537
Office furniture and equipment	<u>12,996,195</u>	<u>817,651</u>	<u>8,618</u>	<u>13,805,228</u>
Subtotal	<u>68,253,353</u>	<u>4,351,977</u>	<u>222,623</u>	<u>72,382,707</u>
Net capital assets being depreciated	<u>54,505,912</u>			<u>52,646,449</u>
Net capital assets	<u>\$54,963,882</u>			<u>\$55,206,384</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007

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	\$ 260,167	Hospital	\$ 1,561,558
Public safety	234,245	Electric	1,751,478
Public works	150,522	Sanitary Sewer	689,488
Recreation and cultural	<u>161,594</u>	Water	304,697
		EMS/Ambulance	<u>44,756</u>
Total	<u>\$ 806,528</u>	Total	<u>\$ 4,351,977</u>

Discretely Presented Component Units

	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2007</u>
Capital assets, being depreciated				
Land improvements	\$ 121,954	\$ 91,938	\$ -	\$ 213,892
Buildings and improvements	<u>302,700</u>	<u>-</u>	<u>-</u>	<u>302,700</u>
Subtotal	424,654	91,938	-	516,592
Accumulated depreciation				
Land improvements	-	14,260	-	14,260
Buildings and improvements	<u>59,499</u>	<u>15,135</u>	<u>-</u>	<u>74,634</u>
Subtotal	<u>59,499</u>	<u>29,395</u>	<u>-</u>	<u>88,894</u>
Net capital assets being depreciated	<u>\$ 365,155</u>			<u>\$ 427,698</u>

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

Downtown Development Authority	<u>\$ 29,395</u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2007

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2007:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Current Portion
Governmental Activities					
Loans payable	\$ 943,720	\$ -	\$ 110,523	\$ 833,197	\$ 115,768
Compensated absences	746,295	294,117	335,979	704,433	-
	1,690,015	294,117	446,502	1,537,630	115,768
Business-Type Activities					
Revenue bonds	20,855,000	71,759	1,225,000	19,701,759	1,125,000
Loans payable	1,187,090	-	241,951	945,139	107,204
Capital leases	130,485	-	51,655	78,830	47,045
Compensated absences	1,113,541	501,311	447,805	1,167,047	-
	23,286,116	573,070	1,966,411	21,892,775	1,279,249
Total Primary Government Long-Term Debt	<u>\$24,976,131</u>	<u>\$ 867,187</u>	<u>\$ 2,412,913</u>	<u>\$23,430,405</u>	<u>\$ 1,395,017</u>

Long-term debt payables at September 30, 2007, 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 \$139,737 \$ 159,679

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 \$399,600 456,786

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 216,732

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 6 - LONG-TERM DEBT - Continued

Long-term compensated absences 704,433

Total Governmental Activities
Long-Term Liabilities \$ 1,537,630

Business-Type Activities

\$5,725,000 2005 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 \$ 5,285,000

\$1,160,000 2007 State/Drinking Water Revolving
Fund loan payable annually, beginning October
1, 2008 and ending October 1, 2027, ranging
from \$45,000 to \$70,000, including interest
paid semi-annually at 2.125%, currently in
the draw down period 71,759

\$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 410,000

\$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 3,195,000

\$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 35,000

Note payable to Michigan Economic Development
Corporation, non-interest bearing, no specific
repayment terms 151,848

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 9,740,000

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 6 - LONG-TERM DEBT - Continued

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	965,000
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.	325,000
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.	184,436
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.	10,589
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	273,266
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, 2007, collateralized by Hospital equipment	78,830
Long-Term Compensated Absences	<u>1,167,047</u>
Total Business-Type Activities Long-Term Liabilities	<u>21,892,775</u>
Total Primary Government Long-Term Debt	<u>\$23,430,405</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2007 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 115,768	\$ 36,611	\$ 152,379
2009	119,317	31,631	150,948
2010	124,568	26,380	150,948
2011	124,226	19,100	143,326
2012	120,930	16,320	137,250
2013-2017	<u>228,388</u>	<u>33,916</u>	<u>262,304</u>
Total	<u>\$ 833,197</u>	<u>\$ 163,958</u>	<u>\$ 997,155</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,279,249	\$ 869,112	\$ 2,148,361
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	1,050,110	560,054	1,610,164
2013-2017	4,807,818	2,665,555	7,473,373
2018-2022	2,838,720	1,966,503	4,805,223
2023-2027	1,842,300	1,570,933	3,413,233
2028-2032	3,171,563	1,230,108	4,401,671
2033-2034	2,203,560	322,960	2,526,520
Unscheduled	<u>223,607</u>	<u>-</u>	<u>223,607</u>
Total	<u>\$ 20,725,728</u>	<u>\$ 11,360,811</u>	<u>\$ 32,086,539</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 6 - LONG-TERM DEBT - Continued

Discretely Presented Component Unit

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2007:

	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2007</u>	Current <u>Portion</u>
Loan Payable	\$ 277,337	\$ -	\$ 13,095	\$ 264,242	\$ 13,731

Long-term debt payable at September 30, 2007, consisted of the following individual issue:

Note payable to Century Bank in the amount of \$278,400, monthly payment of \$2,165 including interest at 4.75%, final payment due August 17, 2021, unsecured	<u>\$ 264,242</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2007 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 13,731	\$ 12,255	\$ 25,986
2009	14,397	11,589	25,986
2010	15,096	10,890	25,986
2011	15,829	10,157	25,986
2012	16,597	9,389	25,986
2013-2017	95,887	34,043	129,930
2018-2021	<u>92,705</u>	<u>9,073</u>	<u>101,778</u>
Total	<u>\$ 264,242</u>	<u>\$ 97,396</u>	<u>\$ 361,638</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2007, 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.	\$ 431,510
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Payable in monthly installments of \$7,333, including interest at 6%, due in full June, 2008.	<u>65,649</u>
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Total Electric Fund	497,159
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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>20,117</u>
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Total Sturgis Hospital Fund Advances Due to Other Funds	517,276
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At September 30, 2007, the Water Fund reflected advances due to the following fund:

Electric Fund

Payable in semi-annual installments of \$138,762 including interest at 5.22%, final payment due August 1, 2011	<u>641,900</u>
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Total Advances Due to Other Funds	<u>\$ 1,159,176</u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 8 - NOTES RECEIVABLE

At September 30, 2007, the Economic Development Fund reflected the following notes receivable:

Note receivable from Grav Co., LLC collectible in monthly installments of \$1,000 including interest at 6.5%, final collection due August, 2012.	\$ 101,413
Note receivable from Miksani Polymer Tech. LLC, currently in default	<u>67,576</u>
Subtotal	168,989
Less: Allowance for uncollectible note from Miksani Polymer Tech., LLC	<u>67,576</u>
Total Economic Development Fund notes receivable	<u>\$ 101,413</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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, 2007, a total of \$100,518 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, 2007, was as follows:

Claims liability October 1	\$ 32,000
Current year claims and changes in estimates	100,518
Claim payments	<u>100,518</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 \$195,221 in 2007 and are reported in the Employee Benefit Fund.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 9 - RISK MANAGEMENT - Continued

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2007, was as follows:

Claims liability October 1	\$ 150,000
Current year claims and changes in estimates	245,221
Claim payments	<u>195,221</u>
Claims liability September 30	<u>\$ 200,000</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, 2007, was as follows:

Claims liability October 1	\$ 400,000
Current year claims and changes in estimates	3,095,883
Claim payments	<u>3,095,883</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, 2007**

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, 2006, the date of the most recent actuarial valuation, membership consisted of 186 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 425 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, 2007, the City's annual pension cost of \$1,940,098 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, 2006, 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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2006)

<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 and Fire:	
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: 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, 2007

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 FAC FACTOR BUY-UP 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, 2007**

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>2006</u>	<u>2005</u>	<u>2004</u>
Annual Pension Cost (APC) \$	1,929,451	\$ 1,739,597	\$ 1,437,413
Percentage of APC contributed	102%	118%	94%
Actuarial value of assets#	56,088,948	47,369,804	45,968,634
Actuarial accrued liability (entry age)	53,867,915	50,314,340	47,243,463
(Under) Overfunded actuarial accrued liability	2,221,033	(2,944,536)	(1,274,829)
Funded ratio	104%	94%	97%
Covered payroll	19,202,376	18,671,016	19,515,461
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	12%	(16%)	(6%)

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

Amortization period - 15 years

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%

* For the December 31, 2006 presentation, the asset valuation method was changed to allow equal treatment of regular investment and realized and unrealized gains and losses.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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, 2007, those costs totaled approximately \$286,000.

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, 69 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 \$596,853 (after retirees' contributions of \$91,868 for the year ended September 30, 2007).

Subsequent to year end, the Hospital terminated the postemployment healthcare benefits offered effective January 1, 2008.

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.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 12 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

During the year ended September 30, 2007, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Public Safety	\$ 3,431,531	\$3,468,418	\$ 36,887
Health and Welfare	23,500	31,300	7,800
Major Street Fund			
Public Works	638,996	711,847	72,851
Local Street Fund			
Public Works	523,164	533,233	10,069
Civic Auditorium Fund			
Recreation and Culture	740,927	774,834	33,907
Debt Service	46,100	51,870	5,770

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.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 13 - CONTINGENT LIABILITIES - Continued

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 \$49,758 in these financial statements for the deductible potentially payable by the Hospital on these malpractice suits.

NOTE 14 - PURCHASED POWER AGREEMENT

The City has entered into an agreement as of May 24, 2006, with Indiana Michigan Power Company (American Electric Power) to purchase electric service on a cost-based formula rate. The contract period runs from July 1, 2006 through May 31, 2026 and includes various cancellation clauses for either party based on advance notification dates or specific circumstances arising. The City receives a monthly invoice which includes a demand charge, energy charge and a fuel charge. The fuel charge is adjusted monthly from an estimated fuel rate factor to an actual. The contract also includes a formula rate true-up clause which requires a calendar year computation based on actual generation demand and generation energy charges. For the fiscal year ended September 30, 2007, the City incurred purchased power cost under this agreement of \$12,540,036 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$200,000 for future true-up cost charges.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 15 - CONSTRUCTION COMMITMENTS

The City has the following active construction projects as of September 30, 2007:

The City entered into a construction commitment for the 2007 Water System Improvement Project with a projected project cost of \$1,160,000. As of September 30, 2007, \$751,732 has been spent on this project. The City has issued \$1,160,000 in Water Supply System Revenue Bonds through the State of Michigan Drinking Water Revolving Fund to pay for the project. As of September 30, 2007, the City has drawn \$71,759 against the revolving loan.

The City entered into a construction commitment for the 2007 Wastewater System Improvements Project with a projected project cost of \$3,771,111. As of September 30, 2007, \$1,053,600 has been spent on this project. The City has been awarded a Michigan S2 grant in the amount of \$1,000,000 to cover the costs for planning, user charge development, and design engineering. As of September 30, 2007, the City has drawn \$857,887 in grant funds. The City has also issued \$2,660,000 in Sewage Disposal System Revenue Bonds through the State of Michigan Clean Water Revolving Fund to complete the construction phases. As of September 30, 2007, \$-0- has been drawn from this fund.

NOTE 16 - 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.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 2,754,181	\$2,753,181	\$2,670,743	\$ (82,438)
Special assessments	12,000	12,000	12,141	141
Licenses and permits	48,506	48,506	49,100	594
Federal grants	-	-	13,675	13,675
State grants	3,600	3,600	17,231	13,631
State shared revenue	1,083,146	1,053,146	1,051,131	(2,015)
Charges for services	39,000	169,000	111,195	(57,805)
Fines and forfeits	42,500	42,500	45,294	2,794
Investment income	550,500	650,500	728,702	78,202
Payments in lieu of taxes	1,420,685	1,495,685	1,420,685	(75,000)
Administrative reimbursement	805,984	790,984	807,307	16,323
Other	<u>66,898</u>	<u>76,898</u>	<u>152,148</u>	<u>75,250</u>
Total revenue	6,827,000	7,096,000	7,079,352	(16,648)
EXPENDITURES				
Legislative	50,254	40,254	33,547	6,707
General government	1,189,744	1,159,744	1,149,085	10,659
Public safety	3,345,531	3,431,531	3,468,418	(36,887)
Public works	527,297	622,297	490,316	131,981
Health and welfare	2,500	23,500	31,300	(7,800)
Recreation and cultural	220,000	111,940	110,000	1,940
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>5,335,326</u>	<u>5,389,266</u>	<u>5,282,666</u>	<u>106,600</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,491,674	1,706,734	1,796,686	89,952
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(1,485,066)</u>	<u>(1,634,066)</u>	<u>(1,499,328)</u>	<u>134,738</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	6,608	72,668	297,358	224,690
FUND BALANCE - BEGINNING OF YEAR	<u>1,622,739</u>	<u>1,622,739</u>	<u>1,622,739</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,629,347</u>	<u>\$1,695,407</u>	<u>\$1,920,097</u>	<u>\$ 224,690</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
State shared revenue	\$ 625,896	\$ 625,896	\$ 593,411	\$ (32,485)
Other	<u>3,000</u>	<u>3,000</u>	<u>5,763</u>	<u>2,763</u>
Total revenue	628,896	628,896	599,174	(29,722)
EXPENDITURES				
Public works	<u>638,996</u>	<u>638,996</u>	<u>711,847</u>	<u>(72,851)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(10,100)	(10,100)	(112,673)	(102,573)
FUND BALANCE - BEGINNING OF YEAR	<u>224,046</u>	<u>224,046</u>	<u>224,046</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 213,946</u>	<u>\$ 213,946</u>	<u>\$ 111,373</u>	<u>\$ (102,573)</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 248,000	\$ 248,000	\$ 257,136	\$ 9,136
Special assessments	15,000	15,000	7,414	(7,586)
State shared revenue	216,261	216,261	205,108	(11,153)
Investment income	8,000	8,000	2,166	(5,834)
Other	<u>-</u>	<u>-</u>	<u>6,116</u>	<u>6,116</u>
Total revenue	487,261	487,261	477,940	(9,321)
EXPENDITURES				
Public works	<u>528,164</u>	<u>523,164</u>	<u>533,233</u>	<u>(10,069)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(40,903)	(35,903)	(55,293)	(19,390)
FUND BALANCE - BEGINNING OF YEAR	<u>382,962</u>	<u>382,962</u>	<u>382,962</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 342,059</u>	<u>\$ 347,059</u>	<u>\$ 327,669</u>	<u>\$ (19,390)</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Public works	<u>260,000</u>	<u>524,000</u>	<u>270,119</u>	<u>253,881</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(260,000)	(524,000)	(270,119)	253,881
OTHER FINANCING SOURCES				
Operating transfers in	<u>263,158</u>	<u>263,158</u>	<u>263,158</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	3,158	(260,842)	(6,961)	253,881
FUND BALANCE - BEGINNING OF YEAR	<u>264,767</u>	<u>264,767</u>	<u>264,767</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 267,925</u></u>	<u><u>\$ 3,925</u></u>	<u><u>\$ 257,806</u></u>	<u><u>\$ 253,881</u></u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ 9,000	\$ 9,000	\$ 9,105	\$ 105
EXPENDITURES				
Public works	<u>20,000</u>	<u>20,000</u>	<u>17,764</u>	<u>2,236</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(11,000)	(11,000)	(8,659)	2,341
OTHER FINANCING SOURCES				
Operating transfers in	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	39,000	39,000	41,341	2,341
FUND BALANCE - BEGINNING OF YEAR	<u>225,280</u>	<u>225,280</u>	<u>225,280</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 264,280</u></u>	<u><u>\$ 264,280</u></u>	<u><u>\$ 266,621</u></u>	<u><u>\$ 2,341</u></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
12/31/97#	\$ 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%
12/31/06#	56,089	53,868	(2,221)	104.1%	19,202	-11.6%

* plan amended # certain assumptions revised

Schedule of Employer Contributions

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2006*	1,929,451	102.1%

* The Annual Required Contribution is based on the 2005 contribution rates for the first nine months and the 2006 contribution rates for the last three months of the calendar year.

For information regarding contribution percentage rates, assumptions, amortization method, etc., see Note 10 on pages 59, 60, 61, and 62.

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2007

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 490,525	\$ 327,008	\$ 817,533
Investments	-	580,430	580,430
Receivables			
Accounts	15,569	465	16,034
Special assessments	-	-	-
Interest	-	7,278	7,278
Due from other funds	-	-	-
Due from component unit	6,477	-	6,477
Due from other governmental units	-	-	-
Prepaid expenses	32,834	-	32,834
Inventory	15,839	-	15,839
	<u>561,244</u>	<u>915,181</u>	<u>1,476,425</u>
Total assets	<u>\$ 561,244</u>	<u>\$ 915,181</u>	<u>\$ 1,476,425</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 59,467	\$ -	\$ 59,467
Due to other funds	-	-	-
Accrued expenses	35,909	-	35,909
Deferred revenue	101,798	-	101,798
	<u>197,174</u>	<u>-</u>	<u>197,174</u>
Total liabilities	197,174	-	197,174
Fund Balance			
Reserved for endowments	-	889,512	889,512
Unreserved, undesignated	364,070	25,669	389,739
	<u>364,070</u>	<u>915,181</u>	<u>1,279,251</u>
Total fund balance	<u>364,070</u>	<u>915,181</u>	<u>1,279,251</u>
Total liabilities and fund balance	<u>\$ 561,244</u>	<u>\$ 915,181</u>	<u>\$ 1,476,425</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue			
License and permits	\$ 25,000	\$ -	\$ 25,000
Federal grants	4,250	-	4,250
State grants	-	-	-
Charges for services	1,061,456	12,626	1,074,082
Fines and forfeits	9,988	-	9,988
Investment income	-	30,198	30,198
Other	<u>140,937</u>	<u>-</u>	<u>140,937</u>
Total revenue	1,241,631	42,824	1,284,455
Expenditures			
General government	235,583	-	235,583
Public safety	138,746	-	138,746
Recreation and cultural	1,658,114	-	1,658,114
Capital outlay	-	-	-
Debt service	<u>51,870</u>	<u>-</u>	<u>51,870</u>
Total expenditures	<u>2,084,313</u>	<u>-</u>	<u>2,084,313</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(842,682)	42,824	(799,858)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	898,678	-	898,678
Operating transfers out	<u>-</u>	<u>(27,018)</u>	<u>(27,018)</u>
Total other financing sources (uses)	<u>898,678</u>	<u>(27,018)</u>	<u>871,660</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	55,996	15,806	71,802
FUND BALANCE - BEGINNING OF YEAR	<u>308,074</u>	<u>899,375</u>	<u>1,207,449</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 364,070</u></u>	<u><u>\$ 915,181</u></u>	<u><u>\$ 1,279,251</u></u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2007

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 14,558	\$ 16,302	\$ 94,240	\$ 46,048
Receivables				
Accounts	45	-	5,696	3,250
Interest	-	-	-	-
Due from other funds	-	-	-	-
Due from component unit	-	6,477	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
Total assets	<u>\$ 14,603</u>	<u>\$ 22,779</u>	<u>\$ 99,936</u>	<u>\$ 49,298</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 31	\$ 3,157	\$ 4,090	\$ 2,703
Due to other funds	-	-	-	-
Accrued expenses	2,627	-	5,076	-
Deferred revenue	-	750	-	-
Total liabilities	2,658	3,907	9,166	2,703
Fund Balance				
Unreserved, undesignated	<u>11,945</u>	<u>18,872</u>	<u>90,770</u>	<u>46,595</u>
Total liabilities and fund balance	<u>\$ 14,603</u>	<u>\$ 22,779</u>	<u>\$ 99,936</u>	<u>\$ 49,298</u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ 87,791	\$ 56,318	\$ 92,119	\$ 83,149	\$ 490,525
-	6,578	-	-	15,569
-	-	-	-	-
-	-	-	-	-
-	-	-	-	6,477
-	-	-	-	-
-	-	32,834	-	32,834
-	15,744	-	95	15,839
<u>\$ 87,791</u>	<u>\$ 78,640</u>	<u>\$ 124,953</u>	<u>\$ 83,244</u>	<u>\$ 561,244</u>

\$ 11,689	\$ 25,808	\$ 4,375	\$ 7,614	\$ 59,467
-	-	-	-	-
5,632	16,815	763	4,996	35,909
-	25,022	58,883	17,143	101,798
17,321	67,645	64,021	29,753	197,174
70,470	10,995	60,932	53,491	364,070
<u>\$ 87,791</u>	<u>\$ 78,640</u>	<u>\$ 124,953</u>	<u>\$ 83,244</u>	<u>\$ 561,244</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2007

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
Revenue				
License and permits	\$ 25,000	\$ -	\$ -	\$ -
Federal grants	-	4,250	-	-
State grants	-	-	-	-
Charges for services	-	-	86,714	-
Fines and forfeits	-	-	-	9,988
Investment income	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>10,095</u>	<u>5,531</u>
Total revenue	25,000	4,250	96,809	15,519
Expenditures				
General government	-	23,480	212,103	-
Public safety	108,719	-	-	30,027
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>108,719</u>	<u>23,480</u>	<u>212,103</u>	<u>30,027</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(83,719)	(19,230)	(115,294)	(14,508)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	71,000	-	167,018	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>71,000</u>	<u>-</u>	<u>167,018</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(12,719)	(19,230)	51,724	(14,508)
FUND BALANCE - BEGINNING OF YEAR	<u>24,664</u>	<u>38,102</u>	<u>39,046</u>	<u>61,103</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 11,945</u></u>	<u><u>\$ 18,872</u></u>	<u><u>\$ 90,770</u></u>	<u><u>\$ 46,595</u></u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 25,000
-	-	-	-	4,250
-	-	-	-	-
76,412	500,996	85,737	311,597	1,061,456
-	-	-	-	9,988
-	-	-	-	-
<u>25,755</u>	<u>8,468</u>	<u>50,122</u>	<u>40,966</u>	<u>140,937</u>
102,167	509,464	135,859	352,563	1,241,631
-	-	-	-	235,583
-	-	-	-	138,746
427,264	774,834	128,731	327,285	1,658,114
-	-	-	-	-
<u>-</u>	<u>51,870</u>	<u>-</u>	<u>-</u>	<u>51,870</u>
<u>427,264</u>	<u>826,704</u>	<u>128,731</u>	<u>327,285</u>	<u>2,084,313</u>
(325,097)	(317,240)	7,128	25,278	(842,682)
388,660	272,000	-	-	898,678
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>388,660</u>	<u>272,000</u>	<u>-</u>	<u>-</u>	<u>898,678</u>
63,563	(45,240)	7,128	25,278	55,996
<u>6,907</u>	<u>56,235</u>	<u>53,804</u>	<u>28,213</u>	<u>308,074</u>
<u>\$ 70,470</u>	<u>\$ 10,995</u>	<u>\$ 60,932</u>	<u>\$ 53,491</u>	<u>\$ 364,070</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2007

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 275,339	\$ 51,669	\$ 327,008
Investments	580,430	-	580,430
Receivables			
Accounts	465	-	465
Interest	7,278	-	7,278
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 863,512</u></u>	<u><u>\$ 51,669</u></u>	<u><u>\$ 915,181</u></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	863,512	26,000	889,512
Unreserved, undesignated	<u>-</u>	<u>25,669</u>	<u>25,669</u>
Total fund balance	<u>863,512</u>	<u>51,669</u>	<u>915,181</u>
Total liabilities and fund balance	<u><u>\$ 863,512</u></u>	<u><u>\$ 51,669</u></u>	<u><u>\$ 915,181</u></u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2007

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Charges for services	\$ 12,626	\$ -	\$ 12,626
Investment income	<u> 29,884</u>	<u> 314</u>	<u> 30,198</u>
Total revenue	42,510	314	42,824
Expenditures			
General government	<u> -</u>	<u> -</u>	<u> -</u>
EXCESS OF REVENUE OVER EXPENDITURES	42,510	314	42,824
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u> (27,018)</u>	<u> -</u>	<u> (27,018)</u>
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	15,492	314	15,806
FUND BALANCE - BEGINNING OF YEAR	<u> 848,020</u>	<u> 51,355</u>	<u> 899,375</u>
FUND BALANCE - END OF YEAR	<u><u> 863,512</u></u>	<u><u> 51,669</u></u>	<u><u> 915,181</u></u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Economic Development Fund	Grobbiser Building Fund
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 1,004,785	\$ 19,631
Receivables		
Notes - current portion	8,418	-
Accounts	-	-
Interest	549	-
Grants	-	-
Advances due from other funds	-	20,117
	<hr/>	<hr/>
Total current assets	1,013,752	39,748
NONCURRENT ASSETS		
Notes receivable	92,995	-
Advances due from other funds	-	-
Other assets	-	-
Capital assets, net of depreciation	-	-
	<hr/>	<hr/>
Total noncurrent assets	92,995	-
	<hr/>	<hr/>
Total assets	1,106,747	39,748
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	-	35,000
Accounts payable	1,030	-
Accrued expenses	-	-
Due to other funds	-	-
	<hr/>	<hr/>
Total current liabilities	1,030	35,000
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	-	-
	<hr/>	<hr/>
Total liabilities	1,030	35,000
NET ASSETS		
Invested in capital assets, net of related debt	-	-
Unrestricted	1,105,717	4,748
	<hr/>	<hr/>
Total net assets	\$ 1,105,717	\$ 4,748

EMS/ Ambulance Fund	Combined Totals
\$ -	\$ 1,024,416
-	8,418
-	-
-	549
-	-
-	20,117
-	1,053,500
-	92,995
-	-
-	-
-	-
-	92,995
-	1,146,495
-	35,000
-	1,030
-	-
-	-
-	36,030
-	-
-	36,030
-	-
-	1,110,465
\$ -	\$ 1,110,465

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

	Economic Development Fund	Grobbiser Building Fund
OPERATING REVENUE		
Charges for services	\$ -	\$ 3,270
Federal grants	-	-
State grants	-	-
Interest revenue	<u>8,624</u>	<u>-</u>
Total operating revenue	8,624	3,270
OPERATING EXPENSES		
Material, maintenance and other	-	-
General and administrative	14,024	-
Depreciation and amortization	-	-
Provision for loan losses	<u>67,576</u>	<u>-</u>
Total operating expenses	<u>81,600</u>	<u>-</u>
OPERATING INCOME (LOSS)	(72,976)	3,270
NONOPERATING REVENUE (EXPENSES)		
Investment income	29,346	-
Gain on sale of assets	-	-
Interest expense	<u>-</u>	<u>(4,130)</u>
Total nonoperating revenue (expense)	<u>29,346</u>	<u>(4,130)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	(43,630)	(860)
OTHER FINANCING SOURCES		
Transfers in	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(43,630)	(860)
NET ASSETS - BEGINNING OF YEAR	<u>1,149,347</u>	<u>5,608</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 1,105,717</u>	<u>\$ 4,748</u>

EMS/ Ambulance Fund	Combined Totals
\$ 355,216	\$ 358,486
-	-
-	-
-	8,624
355,216	367,110
486,889	486,889
53,720	67,744
44,756	44,756
-	67,576
585,365	666,965
(230,149)	(299,855)
-	29,346
34,652	34,652
(381)	(4,511)
34,271	59,487
(195,878)	(240,368)
145,010	145,010
(50,868)	(95,358)
50,868	1,205,823
\$ -	\$ 1,110,465

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2007

	Economic Development Fund	Grobbhiser Building Fund
Cash flows from operating activities		
Receipts from customers and users	\$ -	\$ 3,270
Receipts from operating grants	-	-
Net loans (made) collected	70	-
Interest received on loans	8,075	-
Payments to employees and suppliers	<u>(12,994)</u>	<u>-</u>
Net cash provided by (used for) operating activities	(4,849)	3,270
Cash flows from non-capital financing activities		
Transfers in	-	-
Cash flows from capital and related financing activities		
Principal paid on debt	-	(35,000)
Interest paid on debt	-	(4,130)
Proceeds from sale of capital assets	-	-
Acquisition of capital assets	-	-
Proceeds from issuance of debt	-	-
Receipts from interfund advances	<u>-</u>	<u>34,999</u>
Net cash provided by (used for) capital and related financing activities	-	(4,131)
Cash flows from investing activities		
Interest received on investments	<u>29,346</u>	<u>-</u>
Net increase (decrease) in cash	24,497	(861)
Cash - Beginning of Year	<u>980,288</u>	<u>20,492</u>
Cash - End of Year	<u><u>\$ 1,004,785</u></u>	<u><u>\$ 19,631</u></u>

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EMS/ Ambulance Fund	Combined Totals
\$ 498,261	\$ 501,531
-	-
-	70
-	8,075
<u>(640,032)</u>	<u>(653,026)</u>
(141,771)	(143,350)
145,010	145,010
(104,644)	(139,644)
(381)	(4,511)
101,786	101,786
-	-
-	-
<u>-</u>	<u>34,999</u>
(3,239)	(7,370)
<u>-</u>	<u>29,346</u>
-	23,636
<u>-</u>	<u>1,000,780</u>
<u>\$ -</u>	<u>\$ 1,024,416</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2007

	Economic Development <u>Fund</u>	Grobhiser Building <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (72,976)	\$ 3,270
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	-	-
Provision for loan losses	67,576	-
(Increase) decrease in		
Accounts receivable	-	-
Loans receivable	70	-
Interest receivable	(549)	-
Grants receivable	-	-
Increase (decrease) in		
Accounts payable	1,030	-
Accrued expenses	-	-
Due to other funds	-	-
Net cash provided by (used for) operating activities	<u>\$ (4,849)</u>	<u>\$ 3,270</u>

EMS/ Ambulance Fund	Combined Totals
\$ (230,149)	\$ (299,855)
44,756	44,756
-	67,576
143,045	143,045
-	70
-	(549)
-	-
(23,259)	(22,229)
(11,608)	(11,608)
(64,556)	(64,556)
<u>\$ (141,771)</u>	<u>\$ (143,350)</u>

**CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and equivalents	\$ 899,818	\$ 135,285	\$ 877,885	\$ 1,912,988
Investments	-	-	-	-
Receivables	77	7,429	-	7,506
Due from other funds	-	280,133	-	280,133
Inventory	<u>5,547</u>	<u>-</u>	<u>-</u>	<u>5,547</u>
Total current assets	905,442	422,847	877,885	2,206,174
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,626,674</u>	<u>-</u>	<u>-</u>	<u>1,626,674</u>
Total assets	2,532,116	422,847	877,885	3,832,848
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Current portion of long-term debt	78,150	-	-	78,150
Accounts payable	32,261	34,421	212,383	279,065
Accrued expenses	1,976	-	-	1,976
Due to other funds	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Total current liabilities	112,387	34,421	362,383	509,191
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>538,315</u>	<u>-</u>	<u>-</u>	<u>538,315</u>
Total liabilities	650,702	34,421	362,383	1,047,506
NET ASSETS				
Invested in capital assets, net of related debt	1,010,209	-	-	1,010,209
Unrestricted	<u>871,205</u>	<u>388,426</u>	<u>515,502</u>	<u>1,775,133</u>
Total net assets	<u>\$ 1,881,414</u>	<u>\$ 388,426</u>	<u>\$ 515,502</u>	<u>\$ 2,785,342</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 850,290	\$ 122,359	\$1,712,167	\$ 2,684,816
Other revenues	<u>10,370</u>	<u>791</u>	<u>153,361</u>	<u>164,522</u>
Total operating revenue	860,660	123,150	1,865,528	2,849,338
OPERATING EXPENSES				
Operating and administrative	502,416	39,145	69,156	610,717
Insurance premiums and claims	-	100,518	1,750,142	1,850,660
Depreciation	<u>392,242</u>	<u>-</u>	<u>-</u>	<u>392,242</u>
Total operating expenses	<u>894,658</u>	<u>139,663</u>	<u>1,819,298</u>	<u>2,853,619</u>
OPERATING INCOME (LOSS)	(33,998)	(16,513)	46,230	(4,281)
NONOPERATING REVENUE (EXPENSE)				
Investment income	-	7,049	30,000	37,049
Gain (loss) on sale of fixed assets	41,105	-	-	41,105
Interest expense	<u>(27,740)</u>	<u>-</u>	<u>-</u>	<u>(27,740)</u>
Total nonoperating revenue (expense)	<u>13,365</u>	<u>7,049</u>	<u>30,000</u>	<u>50,414</u>
CHANGE IN NET ASSETS	(20,633)	(9,464)	76,230	46,133
NET ASSETS - BEGINNING OF YEAR	<u>1,902,047</u>	<u>397,890</u>	<u>439,272</u>	<u>2,739,209</u>
NET ASSETS - END OF YEAR	<u>\$ 1,881,414</u>	<u>\$ 388,426</u>	<u>\$ 515,502</u>	<u>\$ 2,785,342</u>

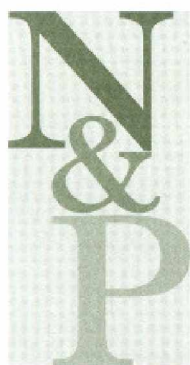
CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2007

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 13,960	\$ -	\$ 153,361	\$ 167,321
Receipts for internal services provided	850,290	52,623	1,712,167	2,615,080
Payments to suppliers	(560,337)	(136,451)	(1,756,915)	(2,453,703)
Payments to employees	<u>(70,127)</u>	<u>-</u>	<u>-</u>	<u>(70,127)</u>
Net cash provided by (used for) operating activities	233,786	(83,828)	108,613	258,571
Cash flows from capital and related financing activities				
Acquisition of capital assets	(299,533)	-	-	(299,533)
Proceeds from sale of capital assets	41,686	-	-	41,686
Proceeds from long-term debt	-	-	-	-
Principal paid on debt	(102,213)	-	-	(102,213)
Interest paid on debt	<u>(27,740)</u>	<u>-</u>	<u>-</u>	<u>(27,740)</u>
Net cash provided by (used for) capital and related financing activities	(387,800)	-	-	(387,800)
Cash flows from investing activities				
Purchase of investments	-	-	-	-
Proceeds from maturity of investments	-	9,305		9,305
Interest on investments	<u>-</u>	<u>7,049</u>	<u>30,000</u>	<u>37,049</u>
Net cash provided by (used for) investing activities	<u>-</u>	<u>16,354</u>	<u>30,000</u>	<u>46,354</u>
Net increase (decrease) in cash	(154,014)	(67,474)	138,613	(82,875)
Cash - Beginning of Year	<u>1,053,832</u>	<u>202,759</u>	<u>739,272</u>	<u>1,995,863</u>
Cash - End of Year	<u>\$ 899,818</u>	<u>\$ 135,285</u>	<u>\$ 877,885</u>	<u>\$ 1,912,988</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2007

	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)	\$ (33,998)	\$ (16,513)	\$ 46,230	\$ (4,281)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	392,242	-	-	392,242
(Increase) decrease in				
Receivables	3,590	(4,736)	-	(1,146)
Due from other funds	-	(65,000)	-	(65,000)
Inventory	1,910	-	-	1,910
Increase (decrease) in				
Accounts payable	(130,018)	2,421	62,383	(65,214)
Accrued expenses	60	-	-	60
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 233,786</u>	<u>\$ (83,828)</u>	<u>\$ 108,613</u>	<u>\$ 258,571</u>



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

To the City Commission
City of Sturgis

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis as of and for the year ended September 30, 2007, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated February 28, 2008. 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.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the City of Sturgis' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the City of Sturgis' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sturgis' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

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

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

This report is intended 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 E. Paulson, P.C.

February 28, 2008