

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2008

CITY OF STURGIS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of and for the year ended September 30, 2008, 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 37 percent, 29 percent, and 60 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, 2008, 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.

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)

The Management's Discussion and Analysis, budgetary comparison schedules and the pension and other postemployment benefits information, 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 accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2009, 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.

As discussed in Note 13 to the financial statements, the City adopted the provisions of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*.

March 20, 2009

Norman E. Paulsen, P.C.

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, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position decreased by \$909,182 during the fiscal year ended September 30, 2008, which represents a 1.2 percent decrease in net assets from \$73,749,889 at the beginning of the year to \$72,840,707 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 \$397,994 to \$16,611,426. The Electric Utility's net assets increased by \$718,367 to \$31,720,813.

The City's Governmental Funds reflected a total fund balance at September 30, 2008 of \$4,342,066, which was an increase of \$179,249 from the prior year end.

The City's property tax rate has decreased from \$10.82 to \$10.0275 per \$1,000 of taxable valuation.

The City made a transfer of \$250,000 to the Municipal Street Fund in addition to the dedicated 1 mill of the tax rate.

State revenue sharing remained at \$1,051,131. This is down by \$256,830 or 24% from a 2001 high of \$1,307,961.

The Net Assets of the Pension Trust Fund decreased by approximately \$8,467,248 or 14% of beginning net assets. This was the result of a net depreciation in the fair value of investments of \$10,092,939.

The total Governmental Fund expenditures for the year ended September 30, 2008, amounted to \$9,871,989, of which \$3,928,749 (40 percent) was for public safety, \$2,310,365 (23 percent) was for public works, \$1,653,672 (17 percent) was for recreation and cultural, and \$1,476,596 (15 percent) was for general government.

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As a result, the financial statements reflect a long-term liability and related expenses of \$735,823 and \$116,000 in governmental and business-type activities, respectively.

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	
	2008	2007	2008	2007
Assets	\$ 8,607	\$ 7,892	\$ 91,759	\$ 87,793
Liabilities	4,265	3,729	34,829	30,824
Fund Equity				
Invested in capital assets, net of related debt	-	-	33,107	34,179
Retained Earnings				
Restricted	-	-	858	1,600
Unreserved	-	-	22,965	21,190
Fund Balances				
Reserved	901	890	-	-
Unreserved	3,441	3,273	-	-
Total Fund Equity	<u>\$ 4,342</u>	<u>\$ 4,163</u>	<u>\$ 56,930</u>	<u>\$ 56,969</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 4.3 percent or \$179,249 from a year ago. In contrast the prior years governmental fund equity increased by 6.0 percent or \$235,574.

The City's enterprise fund equity decreased by 0.1 percent or \$39,483 from a year ago. In contrast the prior years enterprise fund equity increased by 2.9 percent or \$1,620,261.

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	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 9,894	\$ 9,178	\$ 35,201	\$ 31,616
Capital assets	<u>11,276</u>	<u>11,249</u>	<u>56,798</u>	<u>55,206</u>
Total assets	21,170	20,427	91,999	86,822
Long-term debt outstanding	1,116	833	23,472	20,726
Other liabilities	<u>5,175</u>	<u>3,921</u>	<u>10,565</u>	<u>8,019</u>
Total liabilities	6,291	4,754	34,037	28,745
Net assets				
Invested in capital assets, net of related debt	10,160	10,416	33,327	34,481
Restricted	901	889	858	1,600
Unrestricted	<u>3,818</u>	<u>4,368</u>	<u>23,777</u>	<u>21,996</u>
Total net assets	<u>\$ 14,879</u>	<u>\$ 15,673</u>	<u>\$ 57,962</u>	<u>\$ 58,077</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	
	2008	2007	2008	2007
Revenue				
Property taxes	\$ 2,956	\$ 2,928	\$ -	\$ -
In lieu of taxes	1,583	1,421	-	-
Special assessments	9	20	-	-
Licenses and permits	176	74	-	-
Grants	17	35	441	1,170
State shared revenues	1,827	1,850	-	-
Charges for services	1,565	1,145	61,192	60,493
Fines and forfeits	48	55	-	-
Interest income	666	770	194	407
Administrative reim.	883	807	-	-
Other	431	305	1,062	960
Bed license - sale	-	-	-	1,740
Transfers	(110)	(314)	110	314
Total revenue	10,051	9,096	62,999	65,084
Program expenses				
General government	1,522	1,418	-	-
Public safety	3,929	3,607	-	-
Public works	2,310	2,006	-	-
Recreation and culture	1,654	1,728	-	-
Health and welfare	46	31	-	-
Capital outlay	365	18	-	-
Debt service	46	52	-	-
Hospital activity	-	-	36,575	37,725
Electric system	-	-	17,470	16,594
Sewer system	-	-	1,404	1,149
Water system	-	-	791	734
EMS/Ambulance activity	-	-	-	541
Other	-	-	6	14
Loan loss provision	-	-	-	68
In lieu of taxes	-	-	1,583	1,421
Depreciation and amortization	-	-	4,267	4,240
Interest expense	-	-	942	978
Total expenses	9,872	8,860	63,038	63,464
Excess (Deficiency)	\$ 179	\$ 236	\$ (39)	\$ 1,620

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	
	2008	2007	2008	2007
Revenues				
Program revenues				
Charges for services	\$ 1,960	\$ 1,683	\$ 62,985	\$ 62,150
Operating grants and contributions	907	925	36	70
Capital grants and contributions	130	-	405	1,099
General revenues				
Property taxes	2,956	2,928	-	-
State shared revenues	1,051	1,051	-	-
Unrestricted investment earnings	677	791	203	423
Miscellaneous	380	493	282	1,998
Payments in lieu of taxes	1,583	1,421	-	-
Transfers	(110)	(314)	110	314
Total revenues	9,534	8,978	64,021	66,054
Expenses				
General government	1,991	1,224	-	-
Public safety	4,178	3,841	-	-
Public works	2,213	1,815	-	-
Recreation and cultural	1,867	1,890	-	-
Unallocated	46	32	-	-
Interest on long-term debt	33	30	-	-
Hospital services	-	-	38,686	39,885
Electric system	-	-	20,817	19,742
Sewer system	-	-	2,273	1,999
Water system	-	-	1,253	1,167
Other	-	-	1,107	1,634
Total expenses	10,328	8,832	64,136	64,427
Change in net assets	<u>\$ (794)</u>	<u>\$ 146</u>	<u>\$ (115)</u>	<u>\$ 1,627</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2008, the net assets of governmental activities decreased by \$793,993 or 5.1 percent of beginning net assets. This decrease was primarily the result of recording a liability for unfunded other postemployment benefits in the amount of \$735,823.

Business-Type Activities

For the year ended September 30, 2008, the net assets of business-type activities decreased by \$115,189 or 0.2 percent of beginning net assets. This decrease was comprised of the following by specific activity:

	<u>Increase (Decrease)</u>
Hospital services	\$ (397,994)
Electric system	642,661
Sewer system	(196,439)
Water system	(193,157)
Other	<u>29,740</u>
Total	<u>\$ (115,189)</u>

The Hospital's decrease in net assets resulted from an operating loss of approximately \$300,000, interest expense on debt obligations of \$570,000, investment and other income of \$475,000. Changes in estimated settlements under third-party reimbursed programs from prior years resulted in an increase in net patient service revenues of approximately \$1,570,000.

The Electric system's increase in net assets of \$643,000 is down from the prior year increase of \$1,061,000 primarily due to the increased cost of purchased power, an increase in the estimated liability for future true-up cost charges of \$400,000, an increase in the liability for post employment benefits of \$56,000 and an increase in the liability for compensated absences of \$22,000.

The Sewer system's decrease in net assets of \$196,000 is comparable to recent prior years. This decrease includes an increase in the liability for post employment benefits of \$45,000 and an increase in the liability for compensated absences of \$30,000. The City continues to increase utility rates in an attempt to reverse this trend.

The Water system's decrease in net assets of \$193,000 is comparable to recent prior years. This decrease includes an increase in the liability for post employment benefits of \$15,000 and an increase in the liability for compensated absences of \$10,000. The City continues to increase utility rates in an attempt to reverse this trend.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Component Units

The City includes one other entity in its report - the Sturgis Downtown Development Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

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, 2008 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 a decrease of \$7,183 in the original budget and a decrease of \$262,391 in the amended budget. Actual operating results ended up as a decrease in fund balance of \$107,355.

The original budget was amended for:

Increase in state grant revenues	\$ 2,791
Increase in charges for services revenues	53,000
Increase in investment income	50,500
Increase in payments in lieu of taxes revenue	100,000
Decrease in other revenues	500
Decrease in general governmental expenditures	14,501
Increase in public safety expenditures	318,300
Increase in public works expenditures	53,000
Decrease in capital outlay expenditures	66,300

Actual revenues ended the year \$91,032 over the amended budget or 1.3 percent.

Actual expenditures ended the year \$64,004 under the amended budget or 1.1 percent.

There were no significant budget-to-actual differences.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

During the year ended September 30, 2008, the total capital assets of the City increased by \$6,135,000. Additional detail relating to the asset additions follows:

The Hospital capital assets increased by \$1,097,000, of which \$758,000 was financed with bank debt and the balance was financed internally.

The Electric Utility System capital assets increased by \$1,094,000, which was all financed internally.

The Sewer Utility System capital assets increased by \$3,013,000, of which \$142,000 was financed with capital grants, \$2,318,000 was financed with additional debt and the balance was financed internally.

The Water Utility System capital assets increased by \$400,000, which was financed with additional debt.

The Motor Vehicle and Equipment Fund capital assets increased by \$480,000, of which \$398,000 was financed with bank debt for the purchase of a fire truck and the balance was financed with built up reserves.

Governmental capital assets increased by \$269,000 for the Civic Auditorium building renovation project, of which \$130,000 was financed with contributions and \$136,000 was financed with a transfer from the Capital Reserve Fund.

During the year ended September 30, 2008, the total debt obligations of the City increased by additional borrowings of \$4,470,000 and decreased by principal payments of \$1,441,000. Total debt obligations at September 30, 2008 amounted to \$24,588,000.

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 \$26,710,000 which is significantly in excess of the City's outstanding general obligation debt.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The City Commission has adopted a conservative budget for 2008-2009 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, 2009 will be minimal.

The City is anticipating decreases in investment earnings and utility consumption as a result of weakening employment rates, unsettled financial markets and the effects of a global economic downturn. Management is currently reviewing the effects of these losses and possible budget modifications.

As a result of the global economic downturn, the City's Pension fund experienced substantial declines in investment market value subsequent to year end. Because funding requirements depend in part on the market value of assets, the City is expecting significant increases in the actuarially determined future annual required contributions.

The State of Michigan shares a portion of gasoline tax revenue to assist with road maintenance and construction of major and local streets within the City. These revenues have not increased to keep pace with inflation and rising costs of preserving our road infrastructure. Further decreases in funding levels are expected in 2009 as a result of the economic downturn. In response to the lack of State funding, the City, beginning in 2005, has been dedicating one mill, or approximately \$285,000, of operating tax revenue to provide funding for street repair, reconstruction or maintenance.

The City's charter, adjusted for Headlee rollback, allows for the collection of 11.8894 of taxable value assessed to each property owner. For the past three years, the City has maintained a tax rate of 10.0285 mills, the lowest rate levied since 1967. One of the most common issues of discussion is the increase in an owner's Taxable Value. This figure raised the average 2008 assessment by 4.4%, which was the amount of the Consumer Price Index this past year; this increase is required by the law which resulted from the passage of Proposal A in 1994. Although this past year was the highest increase since the adoption of Proposal A, this adjustment has averaged 2.7% over the past fifteen years. Preliminary estimates from the State Treasurer indicate that the increase for the next assessment will only be slightly 1%.

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, 2009.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates - Continued

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 2007 and 2008 in the physical plant and the medical staff which management believes will position the Hospital well for the future.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>Component</u>
	<u>Activities</u>	<u>Type</u>		<u>Units</u>
		<u>Activities</u>		
ASSETS				
Cash and investments	\$ 8,821,877	\$ 22,171,467	\$30,993,344	\$ 241,937
Receivables, net	438,684	7,893,367	8,332,051	-
Receivables, long-term portion	637,603	909,519	1,547,122	-
Internal balances	(117,238)	117,238	-	-
Inventories, prepaid items and other assets	113,006	3,239,858	3,352,864	53,398
Restricted assets	-	868,811	868,811	-
Capital assets - net	<u>11,276,265</u>	<u>56,798,357</u>	<u>68,074,622</u>	<u>463,423</u>
Total assets	21,170,197	91,998,617	113,168,814	758,758
LIABILITIES				
Line of credit	-	-	-	53,398
Accounts payable	701,357	4,122,484	4,823,841	3,433
Accrued and other liabilities	222,005	3,290,859	3,512,864	-
Deferred revenue	2,870,602	1,822,200	4,692,802	88,922
Debt obligations:				
Due within one year	140,000	1,668,917	1,808,917	14,397
Due in more than one year	976,439	21,802,618	22,779,057	236,114
Compensated absences	644,616	1,214,187	1,858,803	-
Other postemployment benefits	<u>735,823</u>	<u>116,000</u>	<u>851,823</u>	<u>-</u>
Total liabilities	<u>6,290,842</u>	<u>34,037,265</u>	<u>40,328,107</u>	<u>396,264</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,159,826	33,326,822	43,486,648	212,912
Restricted:				
Debt service	-	850,000	850,000	-
Endowments	901,493	-	901,493	-
Other purposes	-	7,837	7,837	-
Unrestricted	<u>3,818,036</u>	<u>23,776,693</u>	<u>27,594,729</u>	<u>149,582</u>
Total net assets	<u>\$ 14,879,355</u>	<u>\$ 57,961,352</u>	<u>\$72,840,707</u>	<u>\$ 362,494</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

<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	\$ 1,990,859	\$ 426,846	\$ -	\$ -
Public safety	4,177,712	97,842	13,344	-
Public works	2,213,667	483,861	779,873	-
Recreation and cultural	1,867,104	951,852	114,188	130,061
Unallocated	46,440	-	-	-
Interest on long-term debt	33,039	-	-	-
Total governmental activities	10,328,821	1,960,401	907,405	130,061
Business-type activities:				
Hospital	38,685,804	37,812,811	-	263,008
Electric	20,817,396	21,170,171	35,940	-
Sanitary sewer	2,273,330	1,933,436	-	142,113
Water	1,253,062	1,056,982	-	-
Other	1,106,680	1,011,576	-	-
Total business-type activities	64,136,272	62,984,976	35,940	405,121
Total primary government	<u>\$74,465,093</u>	<u>\$64,945,377</u>	<u>\$ 943,345</u>	<u>\$ 535,182</u>
Component units				
Downtown Development Authority	<u>\$ 140,449</u>	<u>\$ 8,102</u>	<u>\$ 27,555</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>
\$ (1,564,013)	\$ -	\$(1,564,013)	\$ -
(4,066,526)	-	(4,066,526)	-
(949,933)	-	(949,933)	-
(671,003)	-	(671,003)	-
(46,440)	-	(46,440)	-
(33,039)	-	(33,039)	-
(7,330,954)	-	(7,330,954)	-
-	(609,985)	(609,985)	-
-	388,715	388,715	-
-	(197,781)	(197,781)	-
-	(196,080)	(196,080)	-
-	(95,104)	(95,104)	-
-	(710,235)	(710,235)	-
(7,330,954)	(710,235)	(8,041,189)	\$ -
			\$ (104,792)
2,956,017	-	2,956,017	87,289
1,051,131	-	1,051,131	-
676,696	203,048	879,744	2,110
380,485	281,998	662,483	-
1,582,632	-	1,582,632	-
(110,000)	110,000	-	-
6,536,961	595,046	7,132,007	89,399
(793,993)	(115,189)	(909,182)	(15,393)
15,673,348	58,076,541	73,749,889	377,887
<u>\$ 14,879,355</u>	<u>\$ 57,961,352</u>	<u>\$72,840,707</u>	<u>\$ 362,494</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2008**

	General Fund	Major Street Fund	Local Street Fund
ASSETS			
Cash and cash equivalents	\$ 4,815,864	\$ -	\$ 181,814
Investments	-	-	-
Receivables			
Accounts	31,507	-	-
Property taxes	67,454	-	-
Special assessments	10,749	22,912	603,942
Contributions	-	-	-
Interest	27,283	-	-
Due from other funds	-	-	40,584
Due from other governmental units	-	91,464	31,856
Prepaid expenses	-	-	-
Inventory	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,952,857</u>	<u>\$ 114,376</u>	<u>\$ 858,196</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 173,843	\$ 8,396	\$ 6,424
Due to other funds	12,238	40,584	-
Accrued expenses	155,111	9,887	8,822
Deferred revenue	<u>2,798,923</u>	<u>22,912</u>	<u>603,942</u>
Total liabilities	3,140,115	81,779	619,188
FUND BALANCE			
Reserved for endowments	-	-	-
Unreserved, undesignated	<u>1,812,742</u>	<u>32,597</u>	<u>239,008</u>
Total fund balance	<u>1,812,742</u>	<u>32,597</u>	<u>239,008</u>
Total liabilities and fund balance	<u>\$ 4,952,857</u>	<u>\$ 114,376</u>	<u>\$ 858,196</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>
\$ 570,632	\$ 236,399	\$ 1,031,597	\$ 6,836,306
-	-	582,336	582,336
-	-	12,248	43,755
-	-	-	67,454
-	-	-	637,603
-	-	105,393	105,393
-	-	5,373	32,656
-	-	29,391	69,975
-	-	-	123,320
-	-	52,641	52,641
-	-	56,000	56,000
<u>\$ 570,632</u>	<u>\$ 236,399</u>	<u>\$ 1,874,979</u>	<u>\$ 8,607,439</u>

\$ 17,626	\$ -	\$ 252,354	\$ 458,643
-	29,391	-	82,213
-	-	45,904	219,724
-	-	79,016	3,504,793
17,626	29,391	377,274	4,265,373
-	-	901,493	901,493
<u>553,006</u>	<u>207,008</u>	<u>596,212</u>	<u>3,440,573</u>
<u>553,006</u>	<u>207,008</u>	<u>1,497,705</u>	<u>4,342,066</u>
<u>\$ 570,632</u>	<u>\$ 236,399</u>	<u>\$ 1,874,979</u>	<u>\$ 8,607,439</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2008

Total governmental fund balances \$ 4,342,066

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	\$ 14,909,055	
Less accumulated depreciation	<u>(5,079,115)</u>	9,829,940

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	634,191
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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	(182,316)
Compensated absences	(644,616)
Other postemployment benefits	(735,823)

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>1,635,913</u>
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Net assets of governmental activities	<u>\$ 14,879,355</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, 2008

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 2,689,305	\$ -	\$ 266,712
Special assessments	5,803	-	2,851
Licenses and permits	96,005	-	-
State grants	13,344	-	-
State shared revenue	1,051,131	578,793	197,418
Charges for services	83,986	-	-
Fines and forfeits	32,497	-	-
Investment income	631,673	-	646
Contributions	-	-	-
Payments in lieu of taxes	1,582,632	-	-
Administrative reimbursement	883,151	-	-
Other	146,338	45	6,851
Total revenue	7,215,865	578,838	474,478
EXPENDITURES			
Legislative	45,036	-	-
General government	1,231,721	-	-
Public safety	3,793,606	-	-
Public works	366,695	657,614	563,139
Health and welfare	46,440	-	-
Recreation and cultural	41,738	-	-
Capital outlay	95,921	-	-
Debt services	-	-	-
Total expenditures	5,621,157	657,614	563,139
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,594,708	(78,776)	(88,661)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(1,702,063)	-	-
Total other financing sources (uses)	(1,702,063)	-	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(107,355)	(78,776)	(88,661)
FUND BALANCE - BEGINNING OF YEAR	1,920,097	111,373	327,669
FUND BALANCE - END OF YEAR	<u>\$ 1,812,742</u>	<u>\$ 32,597</u>	<u>\$ 239,008</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>
\$ -	\$ -	\$ -	\$ 2,956,017
-	-	-	8,654
-	-	81,502	177,507
-	-	3,662	17,006
-	-	-	1,827,342
-	-	1,481,410	1,565,396
-	-	15,559	48,056
-	6,749	26,463	665,531
-	-	244,249	244,249
-	-	-	1,582,632
-	-	-	883,151
-	-	32,463	185,697
-	6,749	1,885,308	10,161,238
-	-	-	45,036
-	-	244,875	1,476,596
-	-	135,143	3,928,749
232,763	-	490,154	2,310,365
-	-	-	46,440
-	-	1,611,934	1,653,672
-	-	269,135	365,056
-	-	46,075	46,075
232,763	-	2,797,316	9,871,989
(232,763)	6,749	(912,008)	289,249
527,963	70,000	1,154,296	1,752,259
-	(136,362)	(23,834)	(1,862,259)
527,963	(66,362)	1,130,462	(110,000)
295,200	(59,613)	218,454	179,249
257,806	266,621	1,279,251	4,162,817
<u>\$ 553,006</u>	<u>\$ 207,008</u>	<u>\$ 1,497,705</u>	<u>\$ 4,342,066</u>

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

<u>ASSETS</u>	<u>Hospital Fund</u>	<u>Electric Fund</u>
CURRENT ASSETS		
Cash and equivalents	\$ 5,371,020	\$ 6,592,428
Investments	1,153,980	6,189,591
Receivables		
Notes - Current portion	-	-
Accounts	5,314,725	2,042,815
Interest	-	71,463
Grants	-	13,672
Inventory	-	657,729
Due from other funds	-	-
Advances due from other funds	-	26,969
Other current assets	<u>1,431,701</u>	<u>-</u>
Total current assets	13,271,426	15,594,667
NONCURRENT ASSETS		
Unamortized bond costs	652,788	-
Restricted assets	-	868,811
Notes receivable	-	-
Special assessments	-	127,245
Advances due from other funds	-	970,572
Other assets	163,401	200,000
Capital assets, net of depreciation	<u>20,192,664</u>	<u>21,606,066</u>
Total noncurrent assets	<u>21,008,853</u>	<u>23,772,694</u>
Total assets	34,280,279	39,367,361

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>
\$ 822,067	\$ 134,787	\$ 1,043,907	\$ 13,964,209	\$ 2,266,922
-	-	-	7,343,571	-
-	-	13,323	13,323	-
249,802	152,064	-	7,759,406	101,105
-	-	504	71,967	-
-	-	-	13,672	-
86,407	45,961	-	790,097	6,237
-	-	-	-	162,238
-	-	-	26,969	-
-	-	-	1,431,701	-
1,158,276	332,812	1,057,734	31,414,915	2,536,502
-	-	-	652,788	-
-	-	-	868,811	-
-	-	82,471	82,471	-
371,686	328,117	-	827,048	-
-	-	-	970,572	-
-	-	-	363,401	-
<u>10,346,754</u>	<u>4,433,359</u>	<u>-</u>	<u>56,578,843</u>	<u>1,665,839</u>
<u>10,718,440</u>	<u>4,761,476</u>	<u>82,471</u>	<u>60,343,934</u>	<u>1,665,839</u>
11,876,716	5,094,288	1,140,205	91,758,849	4,202,341

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS - Continued
 SEPTEMBER 30, 2008

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 516,693	\$ 482,224
Accounts payable	1,826,576	1,581,392
Accrued expenses	2,654,944	946,912
Customer deposits	-	143,620
Due to other funds	-	-
Advances due to other funds	26,969	-
Cost report settlements	742,350	-
Deferred revenue	<u>-</u>	<u>-</u>
Total current liabilities	5,767,532	3,154,148
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	11,523,749	4,492,400
Advances due to other funds	<u>377,572</u>	<u>-</u>
Total noncurrent liabilities	<u>11,901,321</u>	<u>4,492,400</u>
Total liabilities	17,668,853	7,646,548
NET ASSETS		
Invested in capital assets, net of related debt	8,152,222	16,631,442
Restricted	7,837	850,000
Unrestricted	<u>8,451,367</u>	<u>14,239,371</u>
Total net assets	<u>\$ 16,611,426</u>	<u>\$ 31,720,813</u>

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>
\$ 410,000	\$ 260,000	\$ -	\$ 1,668,917	\$ 100,700
489,265	20,714	-	3,917,947	447,251
94,404	37,639	-	3,733,899	3,259
-	200	-	143,820	-
-	-	-	-	150,000
-	-	-	26,969	-
-	-	-	742,350	-
<u>1,822,200</u>	<u>-</u>	<u>-</u>	<u>1,822,200</u>	<u>-</u>
2,815,869	318,553	-	12,056,102	701,210
4,813,338	973,131	-	21,802,618	833,423
<u>-</u>	<u>593,000</u>	<u>-</u>	<u>970,572</u>	<u>-</u>
<u>4,813,338</u>	<u>1,566,131</u>	<u>-</u>	<u>22,773,190</u>	<u>833,423</u>
7,629,207	1,884,684	-	34,829,292	1,534,633
5,123,416	3,200,228	-	33,107,308	731,716
-	-	-	857,837	-
<u>(875,907)</u>	<u>9,376</u>	<u>1,140,205</u>	<u>22,964,412</u>	<u>1,935,992</u>
<u>\$ 4,247,509</u>	<u>\$ 3,209,604</u>	<u>\$ 1,140,205</u>	<u>\$ 56,929,557</u>	<u>\$ 2,667,708</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, 2008

Net assets - total enterprise funds	\$ 56,929,557
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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>1,031,795</u>
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Net assets of business-type activities	<u><u>\$ 57,961,352</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, 2008

	Hospital Fund	Electric Fund
OPERATING REVENUE		
Charges for services	\$ 37,492,014	\$ 20,763,237
State grants	-	35,940
Interest revenue	-	-
Other	<u>320,797</u>	<u>406,934</u>
Total operating revenue	37,812,811	21,206,111
OPERATING EXPENSES		
Purchased power	-	13,760,375
Material, maintenance and other	23,144,250	2,198,276
General and administrative	13,430,535	1,511,448
Payments in lieu of taxes	-	1,387,892
Depreciation and amortization	1,541,325	1,738,117
Provision for loan losses	<u>-</u>	<u>-</u>
Total operating expenses	<u>38,116,110</u>	<u>20,596,108</u>
OPERATING INCOME (LOSS)	(303,299)	610,003
NONOPERATING REVENUE (EXPENSES)		
Investment income	142,765	20,593
Interest expense	(569,694)	(221,288)
(Loss) Gain on sale of assets	-	-
Other	<u>69,226</u>	<u>199,059</u>
Total non-operating revenue (expenses)	<u>(357,703)</u>	<u>(1,636)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(661,002)	608,367
CAPITAL CONTRIBUTIONS	263,008	-
TRANSFERS IN	<u>-</u>	<u>110,000</u>
CHANGE IN NET ASSETS	(397,994)	718,367
NET ASSETS - BEGINNING OF YEAR	<u>17,009,420</u>	<u>31,002,446</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 16,611,426</u>	<u>\$ 31,720,813</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,895,749	\$ 1,039,387	\$ 1,505	\$ 61,191,892	\$ 2,867,080
-	-	-	35,940	-
-	-	6,336	6,336	-
<u>37,687</u>	<u>17,595</u>	<u>-</u>	<u>783,013</u>	<u>177,452</u>
1,933,436	1,056,982	7,841	62,017,181	3,044,532
-	-	-	13,760,375	-
1,055,746	417,853	-	26,816,125	2,121,834
348,333	373,639	6,499	15,670,454	624,174
125,797	68,943	-	1,582,632	-
653,941	333,250	-	4,266,633	438,344
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,183,817</u>	<u>1,193,685</u>	<u>6,499</u>	<u>62,096,219</u>	<u>3,184,352</u>
(250,381)	(136,703)	1,342	(79,038)	(139,820)
148	213	30,463	194,182	20,032
(89,513)	(59,377)	(2,065)	(941,937)	(30,544)
-	-	-	-	32,698
<u>1,194</u>	<u>2,710</u>	<u>-</u>	<u>272,189</u>	<u>-</u>
<u>(88,171)</u>	<u>(56,454)</u>	<u>28,398</u>	<u>(475,566)</u>	<u>22,186</u>
(338,552)	(193,157)	29,740	(554,604)	(117,634)
142,113	-	-	405,121	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>110,000</u>	<u>-</u>
(196,439)	(193,157)	29,740	(39,483)	(117,634)
<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>
<u>\$ 4,247,509</u>	<u>\$ 3,209,604</u>	<u>\$ 1,140,205</u>	<u>\$ 56,929,557</u>	<u>\$ 2,667,708</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, 2008

Changes in net assets - total enterprise funds	\$ (39,483)
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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	<u>(75,706)</u>
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Change in net assets of business-type activities	<u><u>\$ (115,189)</u></u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008**

	Hospital Fund	Electric Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 36,859,451	\$ 21,011,333
Receipts from operating grants	-	22,268
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	365,455	406,934
Payments to employees and suppliers	<u>(35,826,140)</u>	<u>(17,381,666)</u>
Net cash provided by (used for) operating activities	1,398,766	4,058,869
Cash flows from non-capital financing activities		
Contributions and other receipts	69,583	199,059
Transfers in	<u>-</u>	<u>110,000</u>
Net cash provided by non-capital financing activities	69,583	309,059
Cash flows from capital and related financing activities		
Principal paid on debt	(294,220)	(462,224)
Interest paid on debt	(569,694)	(228,988)
Receipts from interfund advances	-	141,518
Payments against interfund advances	(112,735)	-
Customer deposits	-	21,694
Acquisition of capital assets	(1,097,248)	(1,094,481)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	262,651	-
Proceeds from issuance of debt	<u>757,541</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(1,053,705)	(1,622,481)
Cash flows from investing activities		
Interest received on investments	142,765	36,584
Purchase of investments	(886,518)	(719,678)
Proceeds from maturity of investments-	<u>1,479,885</u>	<u>723,580</u>
Net cash provided by (used for) investing activities	<u>736,132</u>	<u>40,486</u>
Net increase (decrease) in cash	1,150,776	2,785,933
Cash - beginning of year	<u>4,220,244</u>	<u>3,806,495</u>
Cash - ending of year	<u><u>\$ 5,371,020</u></u>	<u><u>\$ 6,592,428</u></u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,877,530	\$ 1,053,806	\$ 1,505	\$60,803,625	\$ 176,954
-	-	-	22,268	-
-	-	5,619	5,619	-
-	-	-	-	2,891,774
-	-	6,381	6,381	-
37,687	17,595	-	827,671	-
<u>(1,984,940)</u>	<u>(1,176,147)</u>	<u>(7,529)</u>	<u>(56,376,422)</u>	<u>(2,645,647)</u>
(69,723)	(104,746)	5,976	5,289,142	423,081
1,194	2,710	-	272,546	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>110,000</u>	<u>-</u>
1,194	2,710	-	382,546	-
(290,000)	(245,000)	(35,000)	(1,326,444)	(80,448)
(89,513)	(64,886)	(2,065)	(955,146)	(30,544)
-	-	20,117	161,635	-
-	(48,900)	-	(161,635)	-
-	-	-	21,694	-
(3,012,690)	(400,976)	-	(5,605,395)	(479,337)
-	-	-	-	34,526
1,964,313	-	-	2,226,964	-
<u>2,318,338</u>	<u>996,372</u>	<u>-</u>	<u>4,072,251</u>	<u>398,106</u>
890,448	236,610	(16,948)	(1,566,076)	(157,697)
148	213	30,463	210,173	20,032
-	-	-	(1,606,196)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,203,465</u>	<u>-</u>
<u>148</u>	<u>213</u>	<u>30,463</u>	<u>807,442</u>	<u>20,032</u>
822,067	134,787	19,491	4,913,054	285,416
<u>-</u>	<u>-</u>	<u>1,024,416</u>	<u>9,051,155</u>	<u>1,981,506</u>
<u>\$ 822,067</u>	<u>\$ 134,787</u>	<u>\$ 1,043,907</u>	<u>\$13,964,209</u>	<u>\$ 2,266,922</u>

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT CASH FLOWS - Continued
 YEAR ENDED SEPTEMBER 30, 2008

	<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)	\$ (303,299)	\$ 610,003
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	1,541,325	1,738,117
Provision for bad debts	1,409,000	-
Provision for purchased power adjustment	-	400,000
Provision for loan losses	-	-
(Increase) decrease in:		
Accounts receivable	(1,176,464)	248,096
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	-	(68,429)
Due from other funds	-	897,879
Other current assets	201,336	-
Increase (decrease) in:		
Accounts payable	279,630	269,677
Accrued expenses	312,337	63,659
Due to other funds	-	(100,133)
Cost report settlements	<u>(865,099)</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 1,398,766</u>	<u>\$ 4,058,869</u>

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>
\$ (250,381)	\$ (136,703)	\$ 1,342	\$ (79,038)	\$ (139,820)
653,941	333,250	-	4,266,633	438,344
-	-	-	1,409,000	-
-	-	-	400,000	-
-	-	-	-	-
(18,219)	14,419	-	(932,168)	(93,599)
-	-	5,619	5,619	-
-	-	45	45	-
-	7,000	-	7,000	-
3,980	543	-	(63,906)	(690)
-	-	-	897,879	117,895
-	-	-	201,336	-
345,895	(307,083)	(1,030)	587,089	99,668
78,500	28,268	-	482,764	1,283
(883,439)	(44,440)	-	(1,028,012)	-
-	-	-	(865,099)	-
<u>\$ (69,723)</u>	<u>\$ (104,746)</u>	<u>\$ 5,976</u>	<u>\$ 5,289,142</u>	<u>\$ 423,081</u>

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2008

	Pension Trust Fund	Agency Fund	Combining Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 74,628	\$ 264,290	\$ 338,918
Investments at market value			
Money market funds	3,279,108	-	3,279,108
U.S. Government agencies	13,108,753	-	13,108,753
Mutual funds	7,684,565		7,684,565
Common and preferred stock	27,254,275	-	27,254,275
Accounts receivable	88,313	81,233	169,546
Dividends and interest receivable	<u>134,388</u>	<u>-</u>	<u>134,388</u>
Total assets	51,624,030	345,523	51,969,553
<u>LIABILITIES</u>			
Accounts payable	8,035	-	8,035
Due to other governmental units	-	318,918	318,918
Other liabilities	<u>-</u>	<u>26,605</u>	<u>26,605</u>
Total liabilities	8,035	345,523	353,558
NET ASSETS			
Held in trust for pension benefits	<u>\$ 51,615,995</u>	<u>\$ -</u>	<u>\$ 51,615,995</u>

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 1,465,213
Employee	<u>433,750</u>
Total contributions	1,898,963
Investment income:	
Interest and dividends	1,982,587
Net appreciation (depreciation) in fair value of investments	(10,092,939)
Investment expenses	<u>(173,826)</u>
Total investment income (loss)	<u>(8,284,178)</u>
Total additions (negative)	(6,385,215)
DEDUCTIONS	
Benefits	1,987,098
Administrative expense	<u>94,935</u>
Total deductions	<u>2,082,033</u>
Net increase (decrease)	(8,467,248)
Net assets held in trust for pension benefits	
Beginning of year	<u>60,083,243</u>
End of year	<u>\$ 51,615,995</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	<u>Downtown Development Authority</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 241,937
Inventory - house	53,398
Capital assets	
Other capital assets, net of depreciation	<u>463,423</u>
Total assets	758,758
<u>LIABILITIES</u>	
Line of credit	53,398
Accounts payable	3,433
Deferred revenue	88,922
Debt Obligations:	
Due within one year	14,397
Due in more than one year	<u>236,114</u>
Total liabilities	396,264
NET ASSETS	
Invested in capital assets	212,912
Unrestricted	<u>149,582</u>
Total net assets	<u>\$ 362,494</u>

See accompanying notes to the financial statements

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

	<u>Program Revenues</u>			Net (Expense) Revenue and Change in Net Asset
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Downtown Development Authority</u>
Downtown Development Authority-economic development	\$ <u>140,449</u>	\$ <u>8,102</u>	\$ <u>27,555</u>	\$ (104,792)
	General revenues			
	Captured property taxes			87,289
	Unrestricted			
	investment earnings			2,110
	Miscellaneous			<u>-</u>
	Total general revenues			<u>89,399</u>
	Change in net asset			(15,393)
	Net asset - beginning of year			<u>377,887</u>
	Net asset - end of year			<u>\$ 362,494</u>

See accompanying notes to the financial statements

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

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, 2008

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.

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.

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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
- * 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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Municipal Street Fund - To account for transfers from the General Fund designated for maintenance of major and local streets within the City.

Capital Projects Fund - To account for transfers from the General Fund designated for capital projects.

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, 2008

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, 2008

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 recognize 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, 2008

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, 2008**

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 2008, 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, 2008**

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 Fund and Electric 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, 2008, was \$10.0285 per \$1,000 of taxable valuation. The 2007 taxable value of the City was \$267,096,490.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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, 2008

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, 2008

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	\$ 9,222,119	\$ 21,771,225	\$ 30,993,344
Restricted assets	-	868,811	868,811
Component Units:			
Cash and Investments	241,937	-	241,937
Fiduciary Funds:			
Cash and cash equivalents	338,918	-	338,918
Investments	<u>-</u>	<u>51,326,701</u>	<u>51,326,701</u>
Total	<u>\$ 9,802,974</u>	<u>\$ 73,966,737</u>	<u>\$ 83,769,711</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, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2008, 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	\$12,565,793					Not Rated
Citizens Bank - Treasury Portfolio Class B Money Market	1,018,562					Not Rated
Century Bank - Northern Trust- Northern Inst. Govt. Portfolio	584,807					Not Rated
Citizens Bank - SEI Daily Income Treasury II Money Market	203,268					Not Rated
Citizens Bank - Mutual Fund- Vanguard Short-Term Fed-Adm.	76,853					Not Rated
Linsco/Private Ledger - Money Market	282,232					Not Rated
U.S. Government Agencies	6,831,253	1,667,735	2,054,715	3,084,520	24,283	AAA-AA
Commercial Paper	<u>1,077,268</u>	1,077,268				A-1+/A-3
Total Primary Government	<u>22,640,036</u>					
Pension Trust Fund						
Sturgis Bank and Trust Co.						
Federated Government Obligations Tax MDG FD INC	305,368					Not Rated
Federated Government Obligations Tax MDG FD PRIN	2,973,740					Not Rated
U.S. Government Agencies	13,108,753	3,344,749	4,166,772	2,211,184	3,386,048	AAA-AA
PIMCO Fixed Income Series C Instl	4,183,045					Not Rated
PIMCO Fixed Income SHS Series M Instl	3,501,520					Not Rated
Common Stocks	<u>27,254,275</u>					N/A
Total Pension Trust Fund	<u>51,326,701</u>					
Total Investments	<u>\$73,966,737</u>					

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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, 2008, the City (including Sturgis Hospital) had \$9,048,600 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units had \$-0- 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, 2008**

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 59 percent special assessments, 6.3 percent property tax, 11.5 percent due from other governments, 10.4 percent accounts receivable, 9.8 percent contributions receivable, and 3.0 percent accrued interest. Business-type activities receivables are 88.7 percent due from customers, 1.1 percent loans, 9.4 percent special assessments, and 0.8 percent accrued interest.

Accounts receivable of the Hospital Fund are reported net of an allowance for uncollectible accounts of \$1,307,000 and net of an allowance for contractual adjustments of \$5,876,000. The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows: Medicare - 34%, Medicaid - 17%, Blue Cross - 11%, Other commercial payors, HMO and self-pay - 38%.

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)	\$ -	\$2,782,110	\$2,782,110
Special assessments not yet due (General, major and local street funds)	634,191	-	634,191
Customer deposits for future services/events (general and special revenue funds)	-	88,492	88,492
(Sewer fund)	-	1,822,200	1,822,200
	<u>\$ 634,191</u>	<u>\$4,692,802</u>	<u>\$5,326,993</u>
Component Unit			
Property taxes levied and collected for next fiscal years operation	\$ -	\$ 68,922	\$ 68,922
Grant funds collected in advance of project costs	-	20,000	20,000
	<u>\$ -</u>	<u>\$ 88,922</u>	<u>\$ 88,922</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 4 - INVENTORY

Component Unit

The Downtown Development Authority accepted the donation of a house. Costs incurred to move and renovate the house through September 30, 2008 were \$53,398. These costs were paid out of a bank line of credit with an advance limitation of \$75,000. The Authority plans on completing the renovation and listing the house for sale.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2008:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Local Street	\$ 40,584	Major Street	\$ 40,584
Civic Auditorium	\$ 29,391	Capital Projects	\$ 29,391
Workers' Compensation Self-Insurance	\$ 162,238	Employee Benefit General	\$ 150,000 12,238
	\$ 162,238		\$ 162,238
Totals	\$ 232,213		\$ 232,213
<u>Advances from/to other funds</u>			
Electric	\$ 593,000	Water	\$ 593,000
Electric	404,541	Hospital	404,541
Totals	\$ 997,541		\$ 997,541
Total Primary Government	\$1,229,754		\$1,229,754

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 5 - 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, 2008:

Fund	Transfers Out	Fund	Transfers In
General	\$ 1,702,063	Municipal Street	\$ 527,963
		Capital Projects	70,000
		Building Department	60,000
		Housing Development	40,000
		Cemetery	120,000
		Parks and Recreation	380,000
		Civic Auditorium - operating	220,000
		Civic Auditorium - debt service	46,100
		Doyle Community Center	10,000
		Airport	118,000
		Electric	110,000
	<u>1,702,063</u>		<u>1,702,063</u>
Capital Projects	<u>136,362</u>	Civic Auditorium	<u>136,362</u>
Cemetery Trust	<u>23,834</u>	Cemetery	<u>23,834</u>
Total Primary Government	<u>\$ 1,862,259</u>		<u>\$ 1,862,259</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, 2008

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2008, was as follows:

	Balance October 1, 2007	Additions	Disposals	Balance September 30, 2008
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	2,164,380	-	-	2,164,380
Land improvements	3,682,338	-	-	3,682,338
Buildings and improvements	6,908,797	429,939	-	7,338,736
Machinery and equipment	1,603,352	7,007	29,428	1,580,931
Vehicles	2,506,176	447,960	98,279	2,855,857
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	17,232,093	884,906	127,707	17,989,292
Accumulated depreciation				
Infrastructure	919,768	144,292	-	1,064,060
Land improvements	760,813	151,680	-	912,493
Buildings and improvements	1,512,390	238,321	-	1,750,711
Machinery and equipment	1,313,007	78,688	29,428	1,362,267
Vehicles	1,707,163	228,152	97,001	1,838,314
Office furniture and equipment	<u>335,833</u>	<u>15,609</u>	<u>-</u>	<u>351,442</u>
Subtotal	<u>6,548,974</u>	<u>856,742</u>	<u>126,429</u>	<u>7,279,287</u>
Net capital assets being depreciated	<u>10,683,119</u>			<u>10,710,005</u>
Net capital assets	<u>\$11,249,379</u>			<u>\$11,276,265</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 6 - CAPITAL ASSETS - Continued

	Balance October 1, 2007	Additions	Disposals/ Transfers	Balance Sept. 30, 2008
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 692,946	\$ 47,334	\$ -	\$ 740,280
Construction in progress	<u>1,866,989</u>	<u>3,861,695</u>	<u>751,732</u>	<u>4,976,952</u>
Subtotal	2,559,935	3,909,029	751,732	5,717,232
Capital assets, being depreciated:				
Land improvements	1,375,569	6,103	48	1,381,624
Buildings, improvements and system	104,110,429	1,920,507	-	106,030,936
Machinery and equipment	1,813,671	3,003	12,612	1,804,062
Vehicles	1,074,085	21,366	36,159	1,059,292
Office furniture and equipment	<u>17,171,034</u>	<u>229,179</u>	<u>48,026</u>	<u>17,352,187</u>
Subtotal	125,544,788	2,180,158	96,845	127,628,101
Accumulated depreciation				
Land improvements	500,421	98,768	48	599,141
Buildings, improvements and system	56,133,033	3,271,622	-	59,404,655
Machinery and equipment	1,242,488	38,138	12,612	1,268,014
Vehicles	701,537	97,779	35,611	763,705
Office furniture and equipment	<u>13,805,228</u>	<u>754,259</u>	<u>48,026</u>	<u>14,511,461</u>
Subtotal	<u>72,382,707</u>	<u>4,260,566</u>	<u>96,297</u>	<u>76,546,976</u>
Net capital assets being depreciated	<u>53,162,081</u>			<u>51,081,125</u>
Net capital assets	<u>\$55,722,016</u>			<u>\$56,798,357</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 249,290	Hospital	\$ 1,535,258
Public safety	277,394	Electric	1,690,483
Public works	150,522	Sanitary Sewer	685,495
Recreation and cultural	<u>179,536</u>	Water	<u>349,330</u>
Total	<u>\$ 856,742</u>	Total	<u>\$ 4,260,566</u>

Discretely Presented Component Units

	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2008</u>
Capital assets, being depreciated				
Land improvements	\$ 213,892	\$ 69,770	\$ -	\$ 283,662
Buildings and improvements	<u>302,700</u>	<u>-</u>	<u>-</u>	<u>302,700</u>
Subtotal	516,592	69,770	-	586,362
Accumulated depreciation				
Land improvements	14,260	18,910	-	33,170
Buildings and improvements	<u>74,634</u>	<u>15,135</u>	<u>-</u>	<u>89,769</u>
Subtotal	<u>88,894</u>	<u>34,045</u>	<u>-</u>	<u>122,939</u>
Net capital assets being depreciated	<u>\$ 427,698</u>			<u>\$ 463,423</u>

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

Downtown Development Authority	<u>\$ 34,045</u>
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CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 7 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2008:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Current Portion
Governmental Activities					
Loans payable	\$ 833,197	\$ 398,106	\$ 114,864	\$ 1,116,439	\$ 140,000
Compensated absences	704,433	284,060	343,877	644,616	-
Net OPEB obligation	-	1,119,695	383,872	735,823	-
	1,537,630	1,801,861	842,613	2,496,878	140,000
Business-Type Activities					
Revenue bonds	19,701,759	3,314,710	1,170,000	21,846,469	1,322,224
Loans payable	945,139	757,541	107,200	1,595,480	327,426
Capital leases	78,830	-	49,244	29,586	19,267
Compensated absences	1,167,047	484,169	437,029	1,214,187	-
Net OPEB obligation	-	290,872	174,872	116,000	-
	<u>21,892,775</u>	<u>4,847,292</u>	<u>1,938,345</u>	<u>24,801,722</u>	<u>1,668,917</u>
Total Primary Government Long-Term Debt	<u>\$23,430,405</u>	<u>\$ 6,649,153</u>	<u>\$ 2,780,958</u>	<u>\$27,298,600</u>	<u>\$ 1,808,917</u>

Long-term debt payables at September 30, 2008, 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 \$94,417

\$ 121,120

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 \$356,400

417,198

Note payable to Citizens Bank in the amount of \$398,106, monthly payment of \$3,065 including interest at 4.50%, final payment due July 1, 2023, secured by fire truck with a net book value of \$387,048

395,805

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 7 - LONG-TERM DEBT - Continued

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	182,316
Compensated absences	644,616
Net OPEB obligation	<u>735,823</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 2,496,878</u>

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	\$ 4,845,000
\$1,086,070 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%	1,023,131
\$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	210,000
\$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	2,905,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2009 and ending April 1, 2028, ranging from \$115,000 to \$155,000, including interest paid semi-annually at 1.625%, currently in the draw down period	2,318,338
Note payable to Michigan Economic Development Corporation, non-interest bearing, no specific repayment terms	129,624

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 7 - LONG-TERM DEBT - Continued

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	9,600,000
Sturgis Building Authority MI Building Authority Bonds, Series 2006 Bonds, payable annually beginning October 1, 2006 and ending October 1, 2034, ranging from \$15,000 to \$60,000, including interest paid semiannually with rates ranging from 4.25% to 4.80%, are collateralized by Hospital assets	945,000
\$2,300,000 Sturgis Bank & Trust construction note, monthly payment of principal and interest at 4.4%, as of February 25, 2009, the note will be converted to a five-year balloon with a 20-year amortization, secured by real estate mortgage, currently in the draw down period	757,541
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.	273,000
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.	171,517
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.	8,911
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	254,887

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 7 - LONG-TERM DEBT - Continued

Various capital lease obligations on Sturgis Hospital's books with monthly payments totaling \$3,659 plus imputed interest of 4% for the year ended September 30, 2008, collateralized by Hospital equipment	29,586
Compensated Absences	1,214,187
Net OPEB Obligation	<u>116,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>24,801,722</u>
Total Primary Government Long-Term Debt	<u>\$27,298,600</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2008 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 140,000	\$ 47,728	\$ 187,728
2010	144,803	42,925	187,728
2011	145,404	34,702	180,106
2012	143,053	30,977	174,030
2013	99,370	21,518	120,888
2014-2018	282,765	50,804	333,569
2019-2023	<u>161,044</u>	<u>16,726</u>	<u>177,770</u>
Total	<u>\$ 1,116,439</u>	<u>\$ 245,380</u>	<u>\$ 1,361,819</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,668,917	\$ 860,430	\$ 2,529,347
2010	1,735,861	799,953	2,535,814
2011	1,325,793	620,452	1,946,245
2012	1,220,110	585,256	1,805,366
2013	1,131,564	542,783	1,674,347
2014-2018	5,128,916	2,785,550	7,914,466
2019-2023	3,511,932	2,054,996	5,566,928
2024-2028	3,007,632	1,641,625	4,649,257
2029-2034	<u>4,740,810</u>	<u>1,622,956</u>	<u>6,363,766</u>
Total	<u>\$ 23,471,535</u>	<u>\$ 11,514,001</u>	<u>\$ 34,985,536</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 7 - LONG-TERM DEBT - Continued

Component Unit

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2008:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Current Portion
Loan Payable	\$ 264,242	\$ -	\$ 13,731	\$ 250,511	\$ 14,397

Long-term debt payable at September 30, 2008, 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	\$ 250,511
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2008 including both principal and interest, are as follows:

	Principal	Interest	Total
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	17,404	8,582	25,986
2014-2018	100,542	29,387	129,929
2019-2021	70,646	5,147	75,793
Total	\$ 250,511	\$ 85,141	\$ 335,652

NOTE 8 - LINE OF CREDIT

Component Unit

The Downtown Development Authority secured a bank line of credit with an advance limitation of \$75,000. The line of credit has a maturity date of July 18, 2012 and requires a monthly interest payment at 5.0% on the unpaid principal balance. As of September 30, 2008, the line of credit balance was \$53,398.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 9 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2008, 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. \$ 404,541

At September 30, 2008, the Water Fund reflected advances due to the following fund:

Electric Fund

Payable in semi-annual installments of
\$70,891 including interest at 3.695%,
final payment due August 1, 2014 593,000

Total Advances Due to Other Funds \$ 997,541

NOTE 10 - NOTE RECEIVABLE

At September 30, 2008, the Economic Development Fund reflected the following note receivable:

Note receivable from Grav Co., LLC
collectible in monthly installments
of \$1,000 including interest at 6.5%,
final collection due August, 2012. \$ 95,794

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 11 - 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, 2008, a total of \$151,148 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, 2008, was as follows:

Claims liability October 1	\$ 32,000
Current year claims and changes in estimates	151,148
Claim payments	<u>(151,148)</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 employee medical benefits which totaled \$1,365,696 in 2008 and are reported in the Employee Benefit Fund.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 11 - RISK MANAGEMENT - Continued

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2008, was as follows:

Claims liability October 1	\$ 200,000
Current year claims and changes in estimates	1,455,696
Claim payments	<u>(1,365,696)</u>
Claims liability September 30	<u>\$ 290,000</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, 2008, was as follows:

Claims liability October 1	\$ 400,000
Current year claims and changes in estimates	3,096,695
Claim payments	<u>(3,146,695)</u>
Claims liability September 30	<u>\$ 350,000</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, 2008**

NOTE 12 - 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, 2007, the date of the most recent actuarial valuation, membership consisted of 193 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 415 current active employees. The plan does not issue a separate financial report.

Summary of Significant Accounting Policies

The financial statements of the City's defined benefit pension plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable according to the terms of the Plan.

Plan investments are reported at fair value with plan administrative costs being financed by the plan.

Contributions

The City's Plan benefits and contribution requirements were established and may be amended under the authority of the City Commission and under agreements with the City's collective bargaining units representing various classes of employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Employees of the Hospital are required to contribute 3 percent to the Plan.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Cost

For the year ended September 30, 2008, the City's annual pension cost of \$1,465,213 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, 2007, 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 © 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.

Trend Information

<u>Year Ended September 30,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 1,968,633	100%	\$ -
2007	1,940,098	100%	-
2008	1,465,213	100%	-

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2007)

Eligibility	Amount
REGULAR RETIREMENT	
(no reduction factor for age)	
General and Electrical Union:	Total service multiplied by:
Any age with 25 years of service	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.
General, Electrical and Hospital:	Electrical - 1.8% of FAC
Age 60 with 10 year of service or 65 with 5 years of service.	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, 2008

NOTE 12 - 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.

NON-DUTY DISABILITY RETIREMENT

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

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.

MEMBER CONTRIBUTIONS

Hospital 1.5%. Effective October 1, 2007:
3.0%

MEMBER FAC FACTOR BUY-UP CONTRIBUTIONS

Electrical, Police, Fire, ½ of the cost associated with
Dispatchers certain benefit changes.
(¼ for police and dispatchers)

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 12 - 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>2007</u>	<u>2006</u>	<u>2005</u>
Annual Pension Cost (APC) \$	1,777,822	\$ 1,929,451	\$ 1,739,597
Percentage of APC contributed	96%	102%	118%
Actuarial value of assets	59,624,229	56,088,948	47,369,804
Actuarial accrued liability (entry age)	57,592,906	53,867,915	50,314,340
(Under) Overfunded actuarial accrued liability	2,031,323	2,221,033	(2,944,536)
Funded ratio	104%	104%	94%
Covered payroll	19,355,000	19,202,376	18,671,016
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	11%	12%	(16%)

GASB required supplementary information is present after the Notes to the Financial Statements. The following information relates to the GASB 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, 2008

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Description

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$735,823 and \$116,000 in governmental and business-type activities, respectively.

The City provides certain health care benefits for retirees, as per the requirements of union contracts and the authority of the City Commission. Substantially all of the City's full-time employees may become eligible for these benefits if they retire from the City and receive a pension. The Hospital terminated the post-employment healthcare benefits offered effective January 1, 2008. Effective January 1, 2009, new hires at the City will no longer be eligible for the post-employment healthcare benefits. 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.

Funding Policy

The Plan is financed on a pay-as-you-go basis. Post-employment healthcare costs are accounted for in the Employee Benefits Fund. Contribution levels are determined annually by the City Commission during the annual budget process after considering the expected pay-as-you-go cash outlay for the benefit and available resources. For fiscal year 2008 the City contributed \$558,774 to the Plan of which \$558,744 was used to pay benefits. Transfers to the Employee Benefits Fund in excess of the actual pay-as-you-go costs are not held in trust, so they do not reduce the City's net-OPEB obligation.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 1,410,567
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>1,410,567</u>
Contributions made	(558,744)
Increase in net OPEB obligation	851,823
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 851,823</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation-</u> <u>End of Year</u>
9/30/08	\$ 1,410,567	39.6%	\$ 851,823

Because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

Funding Status and Funding Progress

As of December 31, 2005, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$16,267,121, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,267,121. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$5,763,910, and the ratio of the UAAL to the covered payroll equaled 282%.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Funding Status and Funding Progress - Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the City maintains no Plan assets, information relative to Plan asset required disclosures is not applicable. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the RSI does not reflect similar information respective of the two preceding years.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan understood by the City and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated December 31, 2005, the entry age normal actuarial cost method was used. Because the City funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 7.0% discount rate, which approximates the expected rate of return on non-pension investments held by the City. Actuarial assumptions also included annual healthcare and prescription drug cost trend rates of 10% and 10%, respectively, initially, reduced by decrements to an ultimate rate of 5% for both healthcare and prescription drug costs after five and ten years, respectively. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 14 - 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 third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined (see Note 19). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

The Hospital (The City of Sturgis) has been named a defendant in several malpractice suits. At this time, it is premature to evaluate the likely outcomes, amount of settlements, if any, or whether they could exceed the insurance coverage. Management intends to vigorously defend these suits and does not expect any unfavorable impacts. Accordingly, an accrual has been made in the amount of \$291,427 in these financial statements for the deductible potentially payable by the Hospital on these malpractice suits.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008

NOTE 15 - 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, 2008, the City incurred purchased power cost under this agreement of \$13,650,600 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$600,000 for future true-up cost charges.

NOTE 16 - CONSTRUCTION COMMITMENTS

The City has the following active construction projects as of September 30, 2008:

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, 2008, \$3,509,620 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, 2008, the City has drawn \$1,000,000 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, 2008, \$2,318,338 has been drawn from this fund.

The City entered into a construction commitment for the 2008 Waste Water System Improvement Project with a projected project cost of \$7,327,200. As of September 30, 2008, \$436,040 has been spent on this project. The City has received \$1,822,200 in contributed capital funds which have been reflected as deferred revenue as of September 30, 2008. The City has also issued \$5,505,000 in Sewage Disposal System Revenue Bonds through the State of Michigan Clean Water Revolving Fund to complete the construction phases. As of September 30, 2008, \$-0- has been drawn from this fund.

At September 30, 2008, the Hospital had remaining commitments related to the Commons Building Construction project approximating \$1,000,000. This project is expected to be completed during the fiscal year ending September 30, 2009.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 17 - CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following information measures the level of charity care provided:

Charges forgone, based on established rates for the fiscal year ended September 30, 2008 amounted to \$794,084.

In addition, under arrangements with various governmental insurance programs, the Hospital provides significant care to the local indigent population for which reimbursement for services rendered is generally less than the cost of providing such services. As part of its obligation to the local communities, the Hospital also provides numerous other services that benefit the communities and are generally performed at no charge.

NOTE 18 - COST REPORT SETTLEMENTS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

Medicare - Inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient and homecare services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

Blue Cross/Blue Shield of Michigan - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed on a fee-for-service and percentage-of-charge basis.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 18 - COST REPORT SETTLEMENTS - Continued

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Contractual adjustments under third-party reimbursement programs represent the difference between actual charges for services and amounts reimbursed by third-party payors. Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs that are subject to audit by fiscal intermediaries. Changes in estimated settlements resulted in an increase in net patient service revenues in 2008 of approximately \$1,570,000.

NOTE 19 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

During the year ended September 30, 2008, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

NONE

NOTE 20 - SUBSEQUENT EVENTS

Declines in Investment Values - Subsequent to year end, the City's Pension Trust Fund has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 2,688,857	\$2,688,857	\$2,689,305	\$ 448
Special assessments	11,000	11,000	5,803	(5,197)
Licenses and permits	49,506	49,506	96,005	46,499
State grants	3,600	6,391	13,344	6,953
State shared revenue	1,053,000	1,053,000	1,051,131	(1,869)
Charges for services	38,000	91,000	83,986	(7,014)
Fines and forfeits	42,500	42,500	32,497	(10,003)
Investment income	550,000	600,500	631,673	31,173
Payments in lieu of taxes	1,508,263	1,608,263	1,582,632	(25,631)
Administrative reimbursement	878,272	878,272	883,151	4,879
Other	<u>96,044</u>	<u>95,544</u>	<u>146,338</u>	<u>50,794</u>
Total revenue	6,919,042	7,124,833	7,215,865	91,032
EXPENDITURES				
Legislative	39,958	39,958	45,036	(5,078)
General government	1,201,767	1,187,266	1,231,721	(44,455)
Public safety	3,553,090	3,871,390	3,793,606	77,784
Public works	325,217	378,217	366,695	11,522
Health and welfare	51,126	51,126	46,440	4,686
Recreation and cultural	49,204	49,204	41,738	7,466
Capital outlay	<u>174,300</u>	<u>108,000</u>	<u>95,921</u>	<u>12,079</u>
Total expenditures	<u>5,394,662</u>	<u>5,685,161</u>	<u>5,621,157</u>	<u>64,004</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,524,380	1,439,672	1,594,708	155,036
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(1,531,563)</u>	<u>(1,702,063)</u>	<u>(1,702,063)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(7,183)	(262,391)	(107,355)	155,036
FUND BALANCE - BEGINNING OF YEAR	<u>1,920,097</u>	<u>1,920,097</u>	<u>1,920,097</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,912,914</u>	<u>\$1,657,706</u>	<u>\$1,812,742</u>	<u>\$ 155,036</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
State shared revenue	\$ 598,001	\$ 566,001	\$ 578,793	\$ 12,792
Other	<u>6,000</u>	<u>6,000</u>	<u>45</u>	<u>(5,955)</u>
Total revenue	604,001	572,001	578,838	6,837
EXPENDITURES				
Public works	<u>627,737</u>	<u>657,737</u>	<u>657,614</u>	<u>123</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(23,736)	(85,736)	(78,776)	6,960
FUND BALANCE - BEGINNING OF YEAR	<u>111,373</u>	<u>111,373</u>	<u>111,373</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 87,637</u>	<u>\$ 25,637</u>	<u>\$ 32,597</u>	<u>\$ 6,960</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 248,000	\$ 248,000	\$ 266,712	\$ 18,712
Special assessments	8,000	8,000	2,851	(5,149)
State shared revenue	207,701	196,201	197,418	1,217
Investment income	2,000	2,000	646	(1,354)
Other	<u>-</u>	<u>-</u>	<u>6,851</u>	<u>6,851</u>
Total revenue	465,701	454,201	474,478	20,277
EXPENDITURES				
Public works	<u>535,664</u>	<u>596,517</u>	<u>563,139</u>	<u>33,378</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(69,963)	(142,316)	(88,661)	53,655
FUND BALANCE - BEGINNING OF YEAR	<u>327,669</u>	<u>327,669</u>	<u>327,669</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 257,706</u>	<u>\$ 185,353</u>	<u>\$ 239,008</u>	<u>\$ 53,655</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

	<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>519,000</u>	<u>232,763</u>	<u>286,237</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(260,000)	(519,000)	(232,763)	286,237
OTHER FINANCING SOURCES				
Operating transfers in	<u>277,963</u>	<u>527,963</u>	<u>527,963</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	17,963	8,963	295,200	286,237
FUND BALANCE - BEGINNING OF YEAR	<u>257,806</u>	<u>257,806</u>	<u>257,806</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 275,769</u>	<u>\$ 266,769</u>	<u>\$ 553,006</u>	<u>\$ 286,237</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ 9,000	\$ 9,000	\$ 6,749	\$ (2,251)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	70,000	70,000	70,000	-
Operating transfers out	<u>(155,500)</u>	<u>(155,500)</u>	<u>(136,362)</u>	<u>19,138</u>
Total other financing sources (uses)	<u>(85,500)</u>	<u>(85,500)</u>	<u>(66,362)</u>	<u>19,138</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(76,500)	(76,500)	(59,613)	16,887
FUND BALANCE - BEGINNING OF YEAR	<u>266,621</u>	<u>266,621</u>	<u>266,621</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 190,121</u>	<u>\$ 190,121</u>	<u>\$ 207,008</u>	<u>\$ 16,887</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

Schedule of Funding Progress

(Dollars represented in thousands)

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability (AAL) Entry <u>Age</u>	Unfunded AAL (UAAL)	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a % of Covered <u>Payroll</u>
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%
12/31/07*	59,624	57,593	(2,031)	103.5%	19,355	-10.5%

* plan amended # certain assumptions revised

These funding schedules are copied from the actuarial studies which are prepared using the individual entry-age cost method.

Schedule of Employer Contributions

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2007	1,777,822	96.3%

The Annual Required Contribution is based on the prior year's contribution rates for the first nine months and the current year's contribution rates for the last three months of the calendar year.

For information regarding contribution percentage rates, assumptions, amortization method, etc., see Note 12 on pages 58, 59, 60, 61 and 62.

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFITS

Schedule of Funding Progress

(Dollars represented in thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
12/31/05	\$ -	\$ 16,267	\$ 16,267	0%	\$ 5,764	282%

Because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

These funding schedules are copied from the actuarial studies which are prepared using the individual entry-age cost method.

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2008

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 693,785	\$ 337,812	\$ 1,031,597
Investments	-	582,336	582,336
Receivables			
Accounts	10,607	1,641	12,248
Contributions	105,393	-	105,393
Interest	-	5,373	5,373
Due from other funds	29,391	-	29,391
Due from other governmental units	-	-	-
Prepaid expenses	52,641	-	52,641
Inventory	<u>56,000</u>	<u>-</u>	<u>56,000</u>
Total assets	<u>\$ 947,817</u>	<u>\$ 927,162</u>	<u>\$ 1,874,979</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 252,354	\$ -	\$ 252,354
Due to other funds	-	-	-
Accrued expenses	45,904	-	45,904
Deferred revenue	<u>79,016</u>	<u>-</u>	<u>79,016</u>
Total liabilities	377,274	-	377,274
Fund Balance			
Reserved for endowments	-	901,493	901,493
Unreserved, undesignated	<u>570,543</u>	<u>25,669</u>	<u>596,212</u>
Total fund balance	<u>570,543</u>	<u>927,162</u>	<u>1,497,705</u>
Total liabilities and fund balance	<u>\$ 947,817</u>	<u>\$ 927,162</u>	<u>\$ 1,874,979</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue			
License and permits	\$ 81,502	\$ -	\$ 81,502
State grants	3,662	-	3,662
Charges for services	1,471,335	10,075	1,481,410
Fines and forfeits	15,559	-	15,559
Investment income	723	25,740	26,463
Contributions	244,249	-	244,249
Other	<u>32,463</u>	<u>-</u>	<u>32,463</u>
Total revenue	1,849,493	35,815	1,885,308
Expenditures			
General government	244,875	-	244,875
Public safety	135,143	-	135,143
Public works	490,154	-	490,154
Recreation and cultural	1,611,934	-	1,611,934
Capital outlay	269,135	-	169,135
Debt service	<u>46,075</u>	<u>-</u>	<u>46,075</u>
Total expenditures	<u>2,797,316</u>	<u>-</u>	<u>2,797,316</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(947,823)	35,815	(912,008)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,154,296	-	1,154,296
Operating transfers out	<u>-</u>	<u>(23,834)</u>	<u>(23,834)</u>
Total other financing sources (uses)	<u>1,154,296</u>	<u>(23,834)</u>	<u>1,130,462</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	206,473	11,981	218,454
FUND BALANCE - BEGINNING OF YEAR	<u>364,070</u>	<u>915,181</u>	<u>1,279,251</u>
FUND BALANCE - END OF YEAR	<u>\$ 570,543</u>	<u>\$ 927,162</u>	<u>\$ 1,497,705</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2008

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 59,157	\$ 41,497	\$ 117,776	\$ 42,336
Receivables				
Accounts		-	869	-
Contributions	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 59,157</u>	<u>\$ 41,497</u>	<u>\$ 118,645</u>	<u>\$ 42,336</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 1,877	\$ -	\$ 4,975	\$ 2,171
Due to other funds	-	-	-	-
Accrued expenses	2,679	-	7,224	844
Deferred revenue	-	750	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	4,556	750	12,199	3,015
Fund Balance				
Unreserved, undesignated	<u>54,601</u>	<u>40,747</u>	<u>106,446</u>	<u>39,321</u>
Total liabilities and fund balance	<u>\$ 59,157</u>	<u>\$ 41,497</u>	<u>\$ 118,645</u>	<u>\$ 42,336</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>Airport Fund</u>	<u>Combined Totals</u>
\$ 155,936	\$ 68,504	\$ 60,011	\$ 101,626	\$ 46,942	\$ 693,785
-	5,771	-	-	3,967	10,607
3,554	101,839	-	-	-	105,393
-	29,391	-	-	-	29,391
-	-	-	-	-	-
-	-	52,641	-	-	52,641
-	22,804	-	448	32,748	56,000
<u>\$ 159,490</u>	<u>\$ 228,309</u>	<u>\$ 112,652</u>	<u>\$ 102,074</u>	<u>\$ 83,657</u>	<u>\$ 947,817</u>

\$ 13,645	\$ 190,130	\$ 4,902	\$ 14,504	\$ 20,150	\$ 252,354
-	-	-	-	-	-
6,281	20,903	974	6,471	528	45,904
-	5,459	55,664	17,143	-	79,016
19,926	216,492	61,540	38,118	20,678	377,274
<u>139,564</u>	<u>11,817</u>	<u>51,112</u>	<u>63,956</u>	<u>62,979</u>	<u>570,543</u>
<u>\$ 159,490</u>	<u>\$ 228,309</u>	<u>\$ 112,652</u>	<u>\$ 102,074</u>	<u>\$ 83,657</u>	<u>\$ 947,817</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2008

	Building Department <u>Fund</u>	Housing Department <u>Fund</u>	Cemetery <u>Fund</u>	Drug Enforcement <u>Fund</u>
Revenue				
License and permits	\$ 81,502	\$ -	\$ -	\$ -
State grants	-	-	-	-
Charges for services	-	-	88,572	-
Fines and forfeits	-	-	-	15,559
Investment income	-	-	-	-
Contributions	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>10,020</u>	<u>13,464</u>
Total revenue	81,502	-	98,592	29,023
Expenditures				
General government	-	18,125	226,750	-
Public safety	98,846	-	-	36,297
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>98,846</u>	<u>18,125</u>	<u>226,750</u>	<u>36,297</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(17,344)	(18,125)	(128,158)	(7,274)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	60,000	40,000	143,834	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>60,000</u>	<u>40,000</u>	<u>143,834</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	42,656	21,875	15,676	(7,274)
FUND BALANCE - BEGINNING OF YEAR	<u>11,945</u>	<u>18,872</u>	<u>90,770</u>	<u>46,595</u>
FUND BALANCE - END OF YEAR	<u>\$ 54,601</u>	<u>\$ 40,747</u>	<u>\$ 106,446</u>	<u>\$ 39,321</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>Airport Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,502
-	-	-	-	3,662	3,662
77,629	453,602	90,317	330,304	430,911	1,471,335
-	-	-	-	-	15,559
-	723	-	-	-	723
21,856	130,061	58,034	34,298	-	244,249
<u>2,500</u>	<u>5,431</u>	<u>488</u>	<u>-</u>	<u>560</u>	<u>32,463</u>
101,985	589,817	148,839	364,602	435,133	1,849,493
-	-	-	-	-	244,875
-	-	-	-	-	135,143
-	-	-	-	490,154	490,154
412,891	676,247	158,659	364,137	-	1,611,934
-	269,135	-	-	-	269,135
<u>-</u>	<u>46,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,075</u>
<u>412,891</u>	<u>991,457</u>	<u>158,659</u>	<u>364,137</u>	<u>490,154</u>	<u>2,797,316</u>
(310,906)	(401,640)	(9,820)	465	(55,021)	(947,823)
380,000	402,462	-	10,000	118,000	1,154,296
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>380,000</u>	<u>402,462</u>	<u>-</u>	<u>10,000</u>	<u>118,000</u>	<u>1,154,296</u>
69,094	822	(9,820)	10,465	62,979	206,473
<u>70,470</u>	<u>10,995</u>	<u>60,932</u>	<u>53,491</u>	<u>-</u>	<u>364,070</u>
<u>\$ 139,564</u>	<u>\$ 11,817</u>	<u>\$ 51,112</u>	<u>\$ 63,956</u>	<u>\$ 62,979</u>	<u>\$ 570,543</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2008

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 286,143	\$ 51,669	\$ 337,812
Investments	582,336	-	582,336
Receivables			
Accounts	1,641	-	1,641
Interest	5,373	-	5,373
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 875,493</u>	<u>\$ 51,669</u>	<u>\$ 927,162</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	875,493	26,000	901,493
Unreserved, undesignated	<u>-</u>	<u>25,669</u>	<u>25,669</u>
Total fund balance	<u>875,493</u>	<u>51,669</u>	<u>927,162</u>
Total liabilities and fund balance	<u>\$ 875,493</u>	<u>\$ 51,669</u>	<u>\$ 927,162</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2008

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Charges for services	\$ 10,075	\$ -	\$ 10,075
Investment income	<u> 25,740</u>	<u> -</u>	<u> 25,740</u>
Total revenue	35,815	-	35,815
Expenditures			
General government	<u> -</u>	<u> -</u>	<u> -</u>
EXCESS OF REVENUE OVER EXPENDITURES	35,815	-	35,815
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u> (23,834)</u>	<u> -</u>	<u> (23,834)</u>
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	11,981	-	11,981
FUND BALANCE - BEGINNING OF YEAR	<u> 863,512</u>	<u> 51,669</u>	<u> 915,181</u>
FUND BALANCE - END OF YEAR	<u><u> 875,493</u></u>	<u><u> 51,669</u></u>	<u><u> 927,162</u></u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Economic Development Fund	Grobbhiser Building Fund	Combined Totals
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and equivalents	\$ 1,043,907	\$ -	\$ 1,043,907
Receivables			
Notes - current portion	13,323	-	13,323
Accounts	-	-	-
Interest	504	-	504
Total current assets	1,057,734	-	1,057,734
NONCURRENT ASSETS			
Notes receivable	82,471	-	82,471
Total assets	1,140,205	-	1,140,205
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	-	-	-
Accrued expenses	-	-	-
Due to other funds	-	-	-
Total current liabilities	-	-	-
NET ASSETS			
Unrestricted	<u>\$ 1,140,205</u>	<u>\$ -</u>	<u>\$ 1,140,205</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

	Economic Development Fund	Grobhiser Building Fund	Combined Totals
OPERATING REVENUE			
Charges for services	\$ -	\$ 1,505	\$ 1,505
Interest revenue	<u>6,336</u>	<u>-</u>	<u>6,336</u>
Total operating revenue	6,336	1,505	7,841
OPERATING EXPENSES			
General and administrative	2,311	4,188	6,499
Provision for loan losses	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>2,311</u>	<u>4,188</u>	<u>6,499</u>
OPERATING INCOME (LOSS)	4,025	(2,683)	1,342
NONOPERATING REVENUE (EXPENSES)			
Investment income	30,463	-	30,463
Interest expense	<u>-</u>	<u>(2,065)</u>	<u>(2,065)</u>
Total nonoperating revenue (expense)	<u>30,463</u>	<u>(2,065)</u>	<u>28,398</u>
CHANGE IN NET ASSETS	34,488	(4,748)	29,740
NET ASSETS - BEGINNING OF YEAR	<u>1,105,717</u>	<u>4,748</u>	<u>1,110,465</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 1,140,205</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,140,205</u></u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008

	Economic Development Fund	Grobbhiser Building Fund	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ -	\$ 1,505	\$ 1,505
Net loans (made) collected	5,619	-	5,619
Interest received on loans	6,381	-	6,381
Payments to employees and suppliers	<u>(3,341)</u>	<u>(4,188)</u>	<u>(7,529)</u>
Net cash provided by (used for) operating activities	8,659	(2,683)	5,976
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on debt	-	(35,000)	(35,000)
Interest paid on debt	-	(2,065)	(2,065)
Receipts from interfund advances	<u>-</u>	<u>20,117</u>	<u>20,117</u>
Net cash provided by (used for) capital and related financing activities	-	(16,948)	(16,948)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	<u>30,463</u>	<u>-</u>	<u>30,463</u>
Net increase (decrease) in cash	39,122	(19,631)	19,491
CASH - BEGINNING OF YEAR	<u>1,004,785</u>	<u>19,631</u>	<u>1,024,416</u>
CASH - END OF YEAR	<u>\$ 1,043,907</u>	<u>\$ -</u>	<u>\$ 1,043,907</u>

CITY OF STURGIS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2008

	Economic Development Fund	Grobhiser Building Fund	Combined Totals
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating income (loss)	\$ 4,025	\$ (2,683)	\$ 1,342
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Provision for loan losses	-	-	-
(Increase) decrease in			
Accounts receivable	-	-	-
Loans receivable	5,619	-	5,619
Interest receivable	45	-	45
Increase (decrease) in			
Accounts payable	(1,030)	-	(1,030)
Accrued expenses	-	-	-
Due to other funds	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 8,659</u>	<u>\$ (2,683)</u>	<u>\$ 5,976</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and equivalents	\$ 1,062,107	\$ 262,301	\$ 942,514	\$ 2,266,922
Receivables	475	6,668	93,962	101,105
Due from other funds	-	162,238	-	162,238
Inventory	<u>6,237</u>	<u>-</u>	<u>-</u>	<u>6,237</u>
Total current assets	1,068,819	431,207	1,036,476	2,536,502
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,665,839</u>	<u>-</u>	<u>-</u>	<u>1,665,839</u>
Total assets	2,734,658	431,207	1,036,476	4,202,341
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Current portion of long-term debt	100,700	-	-	100,700
Accounts payable	8,854	100,518	337,879	447,251
Accrued expenses	3,259	-	-	3,259
Due to other funds	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Total current liabilities	112,813	100,518	487,879	701,210
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>833,423</u>	<u>-</u>	<u>-</u>	<u>833,423</u>
Total liabilities	946,236	100,518	487,879	1,534,633
NET ASSETS				
Invested in capital assets, net of related debt	731,716	-	-	731,716
Unrestricted	<u>1,056,706</u>	<u>330,689</u>	<u>548,597</u>	<u>1,935,992</u>
Total net assets	<u>\$ 1,788,422</u>	<u>\$ 330,689</u>	<u>\$ 548,597</u>	<u>\$ 2,667,708</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 864,058	\$ 129,008	\$1,874,014	\$ 2,867,080
Other revenues	<u>16,651</u>	<u>100</u>	<u>160,701</u>	<u>177,452</u>
Total operating revenue	880,709	129,108	2,034,715	3,044,532
OPERATING EXPENSES				
Operating and administrative	537,511	39,778	46,885	624,174
Insurance premiums and claims	-	151,148	1,970,686	2,121,834
Depreciation	<u>438,344</u>	<u>-</u>	<u>-</u>	<u>438,344</u>
Total operating expenses	<u>975,855</u>	<u>190,926</u>	<u>2,017,571</u>	<u>3,184,352</u>
OPERATING INCOME (LOSS)	(95,146)	(61,818)	17,144	(139,820)
NONOPERATING REVENUE (EXPENSE)				
Investment income	-	4,081	15,951	20,032
Gain (loss) on sale of fixed assets	32,698	-	-	32,698
Interest expense	<u>(30,544)</u>	<u>-</u>	<u>-</u>	<u>(30,544)</u>
Total nonoperating revenue (expense)	<u>2,154</u>	<u>4,081</u>	<u>15,951</u>	<u>22,186</u>
CHANGE IN NET ASSETS	(92,992)	(57,737)	33,095	(117,634)
NET ASSETS - BEGINNING OF YEAR	<u>1,881,414</u>	<u>388,426</u>	<u>515,502</u>	<u>2,785,342</u>
NET ASSETS - END OF YEAR	<u>\$ 1,788,422</u>	<u>\$ 330,689</u>	<u>\$ 548,597</u>	<u>\$ 2,667,708</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 16,253	\$ -	\$ 160,701	\$ 176,954
Receipts for internal services provided	864,058	247,664	1,780,052	2,891,774
Payments to suppliers	(483,047)	(193,247)	(1,892,075)	(2,568,369)
Payments to employees	<u>(77,278)</u>	<u>-</u>	<u>-</u>	<u>(77,278)</u>
Net cash provided by (used for) operating activities	319,986	54,417	48,678	423,081
Cash flows from capital and related financing activities				
Acquisition of capital assets	(479,337)	-	-	(479,337)
Proceeds from sale of capital assets	34,526	-	-	34,526
Proceeds from long-term debt	398,106	-	-	398,106
Principal paid on debt	(80,448)	-	-	(80,448)
Interest paid on debt	<u>(30,544)</u>	<u>-</u>	<u>-</u>	<u>(30,544)</u>
Net cash provided by (used for) capital and related financing activities	(157,697)	-	-	(157,697)
Cash flows from investing activities				
Interest on investments	<u>-</u>	<u>4,081</u>	<u>15,951</u>	<u>20,032</u>
Net increase (decrease) in cash	162,289	58,498	64,629	285,416
Cash - Beginning of Year	<u>899,818</u>	<u>203,803</u>	<u>877,885</u>	<u>1,981,506</u>
Cash - End of Year	<u><u>\$ 1,062,107</u></u>	<u><u>\$ 262,301</u></u>	<u><u>\$ 942,514</u></u>	<u><u>\$ 2,266,922</u></u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2008

	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)	\$ (95,146)	\$ (61,818)	\$ 17,144	\$ (139,820)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	438,344	-	-	438,344
(Increase) decrease in				
Receivables	(398)	761	(93,962)	(93,599)
Due from other funds	-	117,895	-	117,895
Inventory	(690)	-	-	(690)
Increase (decrease) in				
Accounts payable	(23,407)	(2,421)	125,496	99,668
Accrued expenses	1,283	-	-	1,283
Due to other funds	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 319,986</u>	<u>\$ 54,417</u>	<u>\$ 48,678</u>	<u>\$ 423,081</u>

CITY OF STURGIS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Expenditures and Transfers
<u>Environmental Protection Agency</u>				
Passed Through Michigan Department of Environmental Quality				
Drinking Water Revolving Fund	66.468	7206-01	\$ 1,086,070	\$ 806,165*
State Revolving Fund	66.458	5269-01	2,660,000	<u>368,384*</u>
Total Environmental Protection Agency				<u>1,174,549</u>
TOTAL FEDERAL AWARDS				<u>\$ 1,174,549</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sturgis, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**.

Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

* - These funds were reported as debt obligations in the Water and Sanitary Sewer Funds.



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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, Michigan

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, 2008, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 20, 2009. 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. Strawsier, CPA

Jerrold 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 S. Paulsen, P.C.

March 20, 2009



Norman & Paulsen, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the City Commission
City of Sturgis, Michigan

Compliance - We have audited the compliance of the City of Sturgis with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Sturgis' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Sturgis' management. Our responsibility is to express an opinion on The City of Sturgis' compliance based on our audit.

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

In our opinion, the City of Sturgis complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

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

Internal Control over Compliance - The management of the City of Sturgis is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sturgis internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Sturgis' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use 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. Paulsen, P.C.

March 20, 2009

CITY OF STURGIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs
- (vi) No audit findings were disclosed.
- (vii) Major programs:
 - U.S. Environmental Protection Agency
 - 66.468 Drinking Water Revolving Fund
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) The City of Sturgis did not qualify as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE

4. Prior year findings:

NONE



AUDIT-RELATED COMMUNICATIONS

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

Norman & Paulsen, R.C.

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We have audited the financial statements of the City of Sturgis, Michigan for the year ended September 30, 2008, and have issued our report thereon dated March 20, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Sturgis' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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Internal Controls

As part of our audit, we considered the internal control of the City of Sturgis. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

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 a combination of control deficiencies, that adversely affects the City of Sturgis' 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 City of Sturgis' financial statements that is more than inconsequential will not be prevented or detected by the City of Sturgis' internal control.

A material weakness is a significant deficiency, or a 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 City's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

None Noted

We consider the following deficiencies to be significant deficiencies in internal control:

None Noted

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 12, 2009.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Sturgis are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Sturgis during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets acquired or constructed prior to the implementation of GASB 34 is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction.

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Management's estimate of receivables for utility charges earned but not yet billed is based on historic percentages of utility sales revenues.

Management's estimate of the net realizable value of patient accounts receivable is based on paid claims experience. Required allowances, reflecting the difference between standard rates and reimbursement, are based on aging and historical payment experience while considering current trends. Balance sheet valuation allowances are established for potential payment disallowances. Management reduced contractual reserves by approximately \$1.6 million in the current year, which the Hospital auditors concurred with.

Management's estimate of settlements with third-party payors is based on current year data and prior year cost report relationships. Estimates of prior year settlements are updated as additional information (including filed cost reports and interim settlements) becomes available.

Management's estimate of professional liability claims expense is based on conclusions reached by the in-house risk manager, legal counsel, and ongoing discussions related to incidents and reported claims with the Hospital's insurance carrier.

Management's estimate of the liability for uninsured risk of loss, including incurred but not reported claims, which are accounted for in certain internal service funds of the City and as a liability on the Hospital's books is based on conclusions reached by human resources and accounting, and ongoing discussions related to incidents and reported claims.

Management's estimate of true-up charges liability in the Electric Fund is based on historical charges from the supplier of the purchased power.

Management's estimate of the liability for compensated absences is based on conclusions reached by human resources and accounting.

Management's estimate of the net pension asset/liability and the related income/expense is based on the services of an independent third-party actuary. Estimates are dependent upon underlying assumptions used by the actuary and the accuracy of the underlying data.

Management's estimate of the net postretirement healthcare benefits liability and the related expense is based on the services of an independent third-party actuary. Estimates are dependent upon underlying assumptions used by the actuary and the accuracy of the underlying data.

The allocation of shared costs between the funds has been determined based on studies of related time expended, services performed or other applicable activities and data.

We, and the Hospital auditors, evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Sturgis' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the City Commission and management of the City of Sturgis and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the City of Sturgis' auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Sincerely,

Norman & Pearson, P.C.

March 20, 2009