

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2010

CITY OF STURGIS

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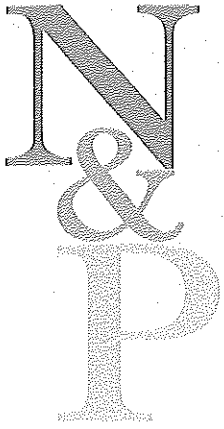
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INDEPENDENT AUDITOR'S REPORT

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, 2010, 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. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2010, 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.

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Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA/ABV, CVA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold 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. 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 30, 2011, 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.

March 30, 2011

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, 2010. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$415,431 during the fiscal year ended September 30, 2010, which represents a 0.7 percent increase in net assets from \$57,685,110 at the beginning of the year to \$58,100,541 at the end of the year. Included in the City's total net assets are the Electric Utility Fund. The Electric Utility's net assets increased by \$1,347,757 to \$33,522,519.

The City's Governmental Funds reflected a total fund balance at September 30, 2010 of \$4,192,679, which was an increase of \$287,076 from the prior year end.

The City levied a general operating millage of 10.0285 compared to a maximum allowable millage of 11.8894 per \$1,000 of taxable valuation.

State revenue sharing decreased to \$895,210. This is down by \$412,751 or 32% from a 2001 high of \$1,307,961.

The Net Assets of the Pension Trust Fund increased by \$3,316,009 or 15% of beginning net assets before the transfer to Sturgis Hospital, Inc. pension plan trust of \$33,417,787. This was the result of a net appreciation in the fair value of investments of \$2,917,844.

The total Governmental Fund expenditures for the year ended September 30, 2010, amounted to \$9,104,191, of which \$3,964,840 (44 percent) was for public safety, \$1,637,998 (18 percent) was for public works, \$1,555,765 (17 percent) was for recreation and cultural, and \$1,636,487 (18 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 \$3,138,917 and \$155,000 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	
	2010	2009	2010	2009
Assets	\$ 8,111	\$ 8,133	\$ 62,524	\$ 62,208
Liabilities	3,918	4,227	17,734	19,128
Fund Equity				
Invested in capital assets, net of related debt	-	-	26,330	27,218
Retained Earnings				
Restricted	-	-	880	883
Unreserved	-	-	17,580	14,979
Fund Balances				
Reserved	898	918	-	-
Unreserved	3,295	2,988	-	-
Total Fund Equity	<u>\$ 4,193</u>	<u>\$ 3,906</u>	<u>\$ 44,790</u>	<u>\$ 43,080</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 7.4 percent or \$287,076 from a year ago. In contrast the prior years governmental fund equity decreased by 10.0 percent or \$436,463.

The City's enterprise fund equity increased by 4.0 percent or \$1,709,443 from a year ago. In contrast the prior years enterprise fund equity increased by 6.9 percent or \$2,762,155.

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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 10,258	\$ 9,824	\$ 22,036	\$ 19,855
Capital assets	<u>10,082</u>	<u>10,886</u>	<u>41,181</u>	<u>41,574</u>
Total assets	20,340	20,710	63,217	61,429
Long-term debt outstanding	817	963	14,175	14,190
Other liabilities	<u>7,400</u>	<u>6,281</u>	<u>3,064</u>	<u>3,019</u>
Total liabilities	8,217	7,244	17,239	17,209
Net assets				
Invested in capital assets, net of related debt	9,265	9,923	27,006	27,384
Restricted	898	918	880	883
Unrestricted	<u>1,960</u>	<u>2,625</u>	<u>18,092</u>	<u>15,953</u>
Total net assets	<u>\$ 12,123</u>	<u>\$ 13,466</u>	<u>\$ 45,978</u>	<u>\$ 44,220</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	
	2010	2009	2010	2009
Revenue				
Property taxes	\$ 3,200	\$ 3,122	\$ -	\$ -
In lieu of taxes	1,594	1,551	-	-
Special assessments	8	31	-	-
Licenses and permits	86	85	-	-
Grants	254	225	318	2,955
State shared revenues	1,576	1,716	-	-
Charges for services	1,155	1,295	25,656	22,107
Fines and forfeits	40	28	-	-
Interest income	468	377	104	226
Administrative reim.	947	1,007	-	-
Other	195	240	560	411
Transfers	(132)	(80)	80	80
Total revenue	9,391	9,597	26,718	25,779
Program expenses				
General government	1,674	1,634	-	-
Public safety	3,965	3,951	-	-
Public works	1,638	2,318	-	-
Recreation and culture	1,556	1,615	-	-
Health and welfare	60	56	-	-
Capital outlay	165	413	-	-
Debt service	46	46	-	-
Electric system	-	-	17,849	15,949
Sewer system	-	-	1,432	1,405
Water system	-	-	775	786
Other	-	-	-	-
In lieu of taxes	-	-	1,594	1,551
Depreciation	-	-	2,915	2,940
Interest expense	-	-	444	386
Total expenses	9,104	10,033	25,009	23,017
Excess (Deficiency)	\$ 287	\$ (436)	\$ 1,709	\$ 2,762

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	
	2010	2009	2010	2009
Revenues				
Program revenues				
Charges for services	\$ 1,736	\$ 1,901	\$ 27,015	\$ 23,419
Operating grants and contributions	936	864	40	26
Capital grants and contributions	66	168	277	2,929
General revenues				
Property taxes	3,200	3,122	-	-
State shared revenues	895	1,007	-	-
Unrestricted investment earnings	469	380	106	229
Miscellaneous	648	916	53	294
Payments in lieu of taxes	1,594	1,551	-	-
Transfers	(132)	(80)	80	80
Total revenues	9,412	9,829	27,571	26,977
Expenses				
General government	2,496	2,238	-	-
Public safety	4,427	4,390	-	-
Public works	2,023	2,697	-	-
Recreation and cultural	1,718	1,827	-	-
Unallocated	61	56	-	-
Interest on long-term debt	30	35	-	-
Electric system	-	-	21,227	19,278
Sewer system	-	-	2,594	2,501
Water system	-	-	1,188	1,237
Other	-	-	804	1,092
Total expenses	10,755	11,243	25,813	24,108
Change in net assets	<u>\$ (1,343)</u>	<u>\$ (1,414)</u>	<u>\$ 1,758</u>	<u>\$ 2,869</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2010, the net assets of governmental activities decreased by \$1,342,860 or 10.0 percent of beginning net assets. This decrease was primarily the result of recording an increase in the liability for unfunded other postemployment benefits in the amount of \$1,450,564.

Business-Type Activities

For the year ended September 30, 2010, the net assets of business-type activities increased by \$1,758,291 or 4.0 percent of beginning net assets. This decrease was comprised of the following by specific activity:

	<u>Increase (Decrease)</u>
Electric system	\$ 1,347,757
Sewer system	945,224
Water system	457,468
Other	<u>(992,158)</u>
Total	<u>\$ 1,758,291</u>

The Electric system's increase in net assets of \$1,348,000 is up from the prior year increase of \$454,000 primarily due to an increase in operating revenues of \$2,850,000.

The Sewer system's increase in net assets of \$945,000 includes non-operating capital contributions of \$277,000 and a transfer from the Economic Development Fund of \$588,000. The Sewer System would have reflected an increase in net assets of \$80,000 without the capital contributions and the transfer which is comparable to recent prior years. The City continues to increase utility rates in an attempt to improve the Sewer system's net asset position.

The Water system's increase in net assets of \$457,000 includes a transfer from the Economic Development Fund of \$462,000. The Water system would have reflected a decrease in net assets of \$5,000 without the transfer which is comparable to recent prior years. The City continues to increase utility rates in an attempt to improve the Water system's net asset position.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Component Units

The City includes four other entities in its report - the Sturgis Downtown Development Authority, the Brownfield Redevelopment Authority, the Local Development Finance Authority and the Building Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

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, 2010 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 \$6,156 in the original budget and an increase of \$34,672 in the amended budget. Actual operating results ended up as an increase in fund balance of \$342,224.

The original budget was amended for:

Increase in grant revenues	\$	137,482
Increase in investment income		100,000
Increase in public safety expenditures		52,000
Increase in capital outlay expenditures		104,000

Actual revenues ended the year \$116,309 over the amended budget or 1.6 percent.

Actual expenditures ended the year \$191,243 under the amended budget or 3.2 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, 2010, the total capital assets of the City increased by \$2,725,607. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$1,619,579, which was all financed internally.

The Sewer Utility System capital assets increased by \$920,639 which was financed with additional debt.

The Water Utility System capital assets increased by \$51,032, which was financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$70,122 which was financed with built up reserves.

Governmental capital assets increased by \$64,235 for equipment, which was funded with grants.

During the year ended September 30, 2010, the total debt obligations of the City increased by additional borrowings of \$1,157,636 and decreased by principal payments of \$1,318,778. Total debt obligations at September 30, 2010 amounted to \$14,991,975.

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 \$28,400,000 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 of Sturgis serves approximately 10,000 residents, is located north of the Michigan-Indiana border in St. Joseph County. The local economic base includes mid-sized manufacturers, hospital, schools, and service providers. The City collaborates with governmental agencies including the County and Indiana to encourage regional economic development. The City has received an award for Creating Entrepreneurial Communities. During the ensuing fiscal year, the City will be undertaking several economic development projects. The first project, funded in part by an Economic Development Administration grant, includes expansion of water and sewer infrastructure to the Dresser Industrial Park. Other capital projects include construction of a Public Services Utility Building and completion of Energy Efficiency Improvements, both financed with Recovery Zone Economic Development Bonds.

The City Commission has adopted a conservative budget for 2010-2011 including a decrease in fund balance for all governmental funds of \$206,000 or 5.2 percent of total beginning fund balances and maintenance of the City's current below maximum tax levy. The City has maintained stable financial operations and strong general fund reserves which provide flexibility in the wake of uncertain economic times and legislative actions.

The City is anticipating decreases in property tax revenue of approximately six percent due to falling property valuations. The property tax base consists of 43% residential, 18% industrial and 16% commercial. State revenue sharing is down slightly from the previous year and the PILOT which is paid to the General Fund from the utility funds is down approximately seven percent, due to decreases in utility consumption. Investment earnings are expected to rise slightly due to improved cash flow management and a slight increase in interest rates. To offset a portion of the revenue decreases, the City implemented a tax administration fee of one percent.

The 2010-2011 budget year includes expenditure increases for employee costs, the most significant of which was the increase in pension contribution of 30%, resulting from the decrease in market value at the end of 2008. To address increases in employee costs, the City has budgeted for increases in employee contributions for health insurance and pension as well as leaving vacant positions unfilled.

Because of the difficult economic climate during the last several years, the City has continued to address a challenging budget with falling revenue and increasing expenditures. This has been accomplished by evaluating vacant positions, investigating options to decrease benefit costs, implementing cost sharing methods, and searching for operational efficiencies with minimal impacts to customer service.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City's charter, adjusted for Headlee rollback, allows for the collection of 11.8894 of taxable value assessed to each property owner. Since 2007, the City has levied an operating millage of 10.0285 mils, which compares favorably to other like cities in southwest Michigan and is the lowest levied by the City since 1967.

For 2011, the inflation rate multiplier which is applied to taxable values is 1.7 percent compared to a negative 0.3 percent in 2010. Further decreases are anticipated in 2011 due to a depressed real estate market. Preliminary estimates indicate no increase in the taxable value of the City.

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 declined over the past several years despite increasing costs for maintenance of roads. The City has established a Municipal Street Fund and in previous years has budgeted one mil of property tax revenue towards street improvements. Due to budget constraints, it has become more difficult to maintain this level of local funding support. The City continues to assess alternative funding methods for street improvements including ways to leverage limited local dollars.

In an effort to maintain financial viability in the Water and Sewer Funds, the City adopted rate increases for the next three years. Prior rate increases have been offset by decreasing utility consumption resulting in operation losses over the past few years. The operational losses as well as several substantial capital improvement projects have had a negative effect on the overall financial position of the Water and Sewer funds. The rates in the Water fund are designed to increase revenue 9.5% each year. The rates in the Sewer fund are designed to increase revenue 9.5%, 5.5% and 5.5% respectively. Actual revenue generated from the utility consumption will be evaluated each year to determine if the financial goals are being met.

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, 2010

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business</u>		<u>Component</u>
	<u>Activities</u>	<u>Type</u>	<u>Total</u>	<u>Units</u>
		<u>Activities</u>		
ASSETS				
Cash and investments	\$ 9,351,446	\$ 16,116,685	\$25,468,131	\$ 352,816
Receivables, net	197,712	2,831,639	3,029,351	295,669
Receivables, long-term portion	631,504	1,181,171	1,812,675	10,005,000
Internal balances	1,988	(1,988)	-	-
Inventories, prepaid items and other assets	75,286	1,028,258	1,103,544	-
Restricted assets	-	880,117	880,117	-
Capital assets - net	<u>10,081,751</u>	<u>41,180,910</u>	<u>51,262,661</u>	<u>491,914</u>
Total assets	20,339,687	63,216,792	83,556,479	11,145,399
LIABILITIES				
Accounts payable	518,415	1,660,110	2,178,525	107,028
Accrued and other liabilities	238,244	850,705	1,088,949	1,150
Deferred revenue	2,852,824	202,122	3,054,946	45,249
Debt obligations:				
Due within one year	140,798	1,207,224	1,348,022	229,542
Due in more than one year	676,011	12,967,942	13,643,953	10,942,710
Compensated absences	651,626	196,000	847,626	-
Other postemployment benefits	<u>3,138,917</u>	<u>155,000</u>	<u>3,293,917</u>	<u>-</u>
Total liabilities	<u>8,216,835</u>	<u>17,239,103</u>	<u>25,455,938</u>	<u>11,325,679</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,264,942	27,005,744	36,270,686	300,820
Restricted:				
Debt service	-	850,000	850,000	-
Endowments	897,932	-	897,932	-
Other purposes	-	30,117	30,117	-
Unrestricted (deficit)	<u>1,959,978</u>	<u>18,091,828</u>	<u>20,051,806</u>	<u>(481,100)</u>
Total net assets (deficit)	<u>\$ 12,122,852</u>	<u>\$ 45,977,689</u>	<u>\$58,100,541</u>	<u>\$ (180,280)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

<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	\$ 2,496,210	\$ 573,667	\$ -	\$ -
Public safety	4,426,639	86,000	109,589	66,181
Public works	2,023,071	256,344	757,248	-
Recreation and cultural	1,718,263	820,097	68,736	-
Unallocated	60,579	-	-	-
Interest on long-term debt	30,398	-	-	-
Total governmental activities	10,755,160	1,736,108	935,573	66,181
Business-type activities:				
Electric	21,226,759	22,137,703	40,347	-
Sanitary sewer	2,594,270	2,673,764	-	277,362
Water	1,188,018	1,168,148	-	-
Other	803,796	1,035,188	-	-
Total business-type activities	25,812,843	27,014,803	40,347	277,362
Total primary government	<u>\$36,568,003</u>	<u>\$28,750,911</u>	<u>\$ 975,920</u>	<u>\$ 343,543</u>
Component units	<u>\$ 950,046</u>	<u>\$ 490,414</u>	<u>\$ 17,877</u>	<u>\$ -</u>

General revenues:

- Property taxes
- State shared revenues
- Unrestricted investment earnings
- Miscellaneous
- Payments in lieu of taxes
- Transfers - internal
- Transfers - external

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>
\$ (1,922,543)	\$ -	\$(1,922,543)	\$ -
(4,164,869)	-	(4,164,869)	-
(1,009,479)	-	(1,009,479)	-
(829,430)	-	(829,430)	-
(60,579)	-	(60,579)	-
(30,398)	-	(30,398)	-
(8,017,298)	-	(8,017,298)	-
-	951,291	951,291	-
-	356,856	356,856	-
-	(19,870)	(19,870)	-
-	<u>231,392</u>	<u>231,392</u>	-
-	<u>1,519,669</u>	<u>1,519,669</u>	-
(8,017,298)	1,519,669	(6,497,629)	<u>\$ -</u>
			\$ (441,755)
3,199,932	-	3,199,932	115,507
895,210	-	895,210	-
468,650	105,762	574,412	460
647,835	52,860	700,695	-
1,594,480	-	1,594,480	-
(80,000)	80,000	-	-
(51,669)	-	(51,669)	-
<u>6,674,438</u>	<u>238,622</u>	<u>6,913,060</u>	<u>115,967</u>
(1,342,860)	1,758,291	415,431	(325,788)
<u>13,465,712</u>	<u>44,219,398</u>	<u>57,685,110</u>	<u>145,508</u>
<u>\$ 12,122,852</u>	<u>\$ 45,977,689</u>	<u>\$58,100,541</u>	<u>\$ (180,280)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2010**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 5,397,135	\$ 9,966	\$ 178,214
Investments	-	-	-
Receivables			
Accounts	15,058	-	-
Property taxes	28,170	-	-
Special assessments	14,940	22,912	593,652
Interest	4,966	-	-
Due from other funds	1,988	-	-
Due from other governmental units	4,519	85,051	31,333
Prepaid expenses	-	-	-
Inventory	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 5,466,776</u>	<u>\$ 117,929</u>	<u>\$ 803,199</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 99,161	\$ 2,564	\$ 421
Due to other funds	-	-	-
Accrued expenses	170,229	9,311	6,493
Deferred revenue	<u>2,818,954</u>	<u>22,912</u>	<u>593,652</u>
Total liabilities	3,088,344	34,787	600,566
FUND BALANCE			
Reserved for endowments	-	-	-
Unreserved, undesignated	<u>2,378,432</u>	<u>83,142</u>	<u>202,633</u>
Total fund balance	<u>2,378,432</u>	<u>83,142</u>	<u>202,633</u>
Total liabilities and fund balance	<u>\$ 5,466,776</u>	<u>\$ 117,929</u>	<u>\$ 803,199</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>
\$ 175,862	\$ 205,876	\$ 630,389	\$ 6,597,442
-	-	592,326	592,326
-	-	26,120	41,178
-	-	-	28,170
-	-	-	631,504
-	-	2,495	7,461
-	-	20,000	21,988
-	-	-	120,903
-	-	20,510	20,510
-	-	49,419	49,419
<u>\$ 175,862</u>	<u>\$ 205,876</u>	<u>\$ 1,341,259</u>	<u>\$ 8,110,901</u>

\$ 8,192	\$ -	\$ 67,605	\$ 177,943
-	20,000	-	20,000
-	-	49,918	235,951
-	-	48,810	3,484,328
8,192	20,000	166,333	3,918,222
-	-	897,932	897,932
<u>167,670</u>	<u>185,876</u>	<u>276,994</u>	<u>3,294,747</u>
<u>167,670</u>	<u>185,876</u>	<u>1,174,926</u>	<u>4,192,679</u>
<u>\$ 175,862</u>	<u>\$ 205,876</u>	<u>\$ 1,341,259</u>	<u>\$ 8,110,901</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2010

Total governmental fund balances \$ 4,192,679

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	\$ 15,386,485	
Less accumulated depreciation	<u>(6,219,664)</u>	9,166,821

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	631,504
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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	(102,427)
Compensated absences	(651,626)
Other postemployment benefits	(3,138,917)

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>2,024,818</u>
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Net assets of governmental activities	<u>\$ 12,122,852</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, 2010

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 2,894,207	\$ 43,800	\$ 261,925
Special assessments	6,036	-	1,486
Licenses and permits	64,211	-	-
Federal grants	94,597	-	-
State grants	63,073	67,942	8,415
State shared revenue	895,210	497,618	183,273
Charges for services	120,138	-	-
Fines and forfeits	33,713	-	-
Investment income	449,597	-	268
Contributions	-	-	-
Payments in lieu of taxes	1,594,480	-	-
Administrative reimbursement	946,752	-	-
Other	74,839	59	4,976
Total revenue	7,236,853	609,419	460,343
EXPENDITURES			
Legislative	37,292	-	-
General government	1,362,924	-	-
Public safety	3,837,359	-	-
Public works	292,851	588,009	459,794
Health and welfare	60,579	-	-
Recreation and cultural	49,995	-	-
Capital outlay	117,529	-	-
Debt services	-	-	-
Total expenditures	5,758,529	588,009	459,794
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,478,324	21,410	549
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(1,136,100)	-	-
Transfer to Community Foundation	-	-	-
Total other financing sources (uses)	(1,136,100)	-	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	342,224	21,410	549
FUND BALANCE - BEGINNING OF YEAR	2,036,208	61,732	202,084
FUND BALANCE - END OF YEAR	\$ 2,378,432	\$ 83,142	\$ 202,633
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>
\$ -	\$ -	\$ -	\$ 3,199,932
-	-	-	7,522
-	-	21,789	86,000
-	-	-	94,597
-	-	19,850	159,280
-	-	-	1,576,101
-	-	1,034,634	1,154,772
-	-	6,420	40,133
-	1,777	16,812	468,454
-	-	66,986	66,986
-	-	-	1,594,480
-	-	-	946,752
-	-	48,053	127,927
-	1,777	1,214,544	9,522,936

-	-	-	37,292
-	-	273,563	1,636,487
-	-	127,481	3,964,840
74,074	-	223,270	1,637,998
-	-	-	60,579
-	-	1,505,770	1,555,765
-	-	47,626	165,155
-	-	46,075	46,075
<u>74,074</u>	<u>-</u>	<u>2,223,785</u>	<u>9,104,191</u>

(74,074)	1,777	(1,009,241)	418,745
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200,000	5,000	906,005	1,111,005
-	(35,711)	(19,194)	(1,191,005)
-	-	(51,669)	(51,669)
<u>200,000</u>	<u>(30,711)</u>	<u>835,142</u>	<u>(131,669)</u>

125,926	(28,934)	(174,099)	287,076
<u>41,744</u>	<u>214,810</u>	<u>1,349,025</u>	<u>3,905,603</u>
<u>\$ 167,670</u>	<u>\$ 185,876</u>	<u>\$ 1,174,926</u>	<u>\$ 4,192,679</u>

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

	Electric Fund	Sanitary Sewer Fund
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 3,673,246	\$ 560
Investments	10,450,936	-
Receivables		
Notes - Current portion	25,940	-
Accounts	2,191,465	345,763
Interest	55,879	-
Grant	30,419	-
Inventory	697,503	91,074
Due from other funds	-	-
Advances due from other funds	<u>161,254</u>	<u>-</u>
Total current assets	17,286,642	437,397
NONCURRENT ASSETS		
Restricted assets	880,117	-
Notes receivable	326,908	-
Special assessments	123,829	364,739
Advances due from other funds	500,490	-
Other assets	177,776	-
Capital assets, net of depreciation	<u>20,745,146</u>	<u>16,366,556</u>
Total noncurrent assets	<u>22,754,266</u>	<u>16,731,295</u>
Total assets	40,040,908	17,168,692

Continued on next page

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 697,548	\$ 38,755	\$ 4,410,109	\$ 3,417,318
-	-	10,450,936	-
-	20,316	46,256	-
159,735	-	2,696,963	1,654
-	468	56,347	-
-	-	30,419	-
59,609	-	848,186	7,653
-	-	-	-
-	-	161,254	-
916,892	59,539	18,700,470	3,426,625
-	-	880,117	-
-	45,574	372,482	-
320,121	-	808,689	-
-	-	500,490	-
-	-	177,776	-
<u>3,971,952</u>	<u>-</u>	<u>41,083,654</u>	<u>1,012,186</u>
<u>4,292,073</u>	<u>45,574</u>	<u>43,823,208</u>	<u>1,012,186</u>
5,208,965	105,113	62,523,678	4,438,811

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS - Continued
 SEPTEMBER 30, 2010

	Electric Fund	Sanitary Sewer Fund
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 512,224	\$ 645,000
Accounts payable	1,441,370	30,623
Accrued expenses	879,067	105,880
Customer deposits	177,497	-
Due to other funds	-	-
Advances due to other funds	-	-
Deferred revenue	<u>22,131</u>	<u>179,991</u>
Total current liabilities	3,032,289	961,494
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	3,486,100	8,590,772
Advances due to other funds	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>3,486,100</u>	<u>8,590,772</u>
Total liabilities	6,518,389	9,552,266
NET ASSETS		
Invested in capital assets, net of related debt	16,830,146	7,130,784
Restricted	880,117	-
Unrestricted	<u>15,812,256</u>	<u>485,642</u>
Total net assets	<u>\$ 33,522,519</u>	<u>\$ 7,616,426</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 50,000	\$ -	\$ 1,207,224	\$ 98,242
22,201	-	1,494,194	506,388
38,054	-	1,023,001	3,275
225	-	177,722	-
-	-	-	1,988
161,254	-	161,254	-
-	-	202,122	-
271,734	-	4,265,517	609,893
891,070	-	12,967,942	616,140
500,490	-	500,490	-
1,391,560	-	13,468,432	616,140
1,663,294	-	17,733,949	1,226,033
2,369,138	-	26,330,068	297,804
-	-	880,117	-
1,176,533	105,113	17,579,544	2,914,974
<u>\$ 3,545,671</u>	<u>\$ 105,113</u>	<u>\$ 44,789,729</u>	<u>\$ 3,212,778</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, 2010

Net assets - total enterprise funds	\$ 44,789,729
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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>1,187,960</u>
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Net assets of business-type activities	<u><u>\$ 45,977,689</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, 2010

	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUE		
Charges for services	\$ 21,841,404	\$ 2,656,629
Federal grants	40,347	-
Interest revenue	-	-
Other	<u>296,299</u>	<u>17,135</u>
Total operating revenue	22,178,050	2,673,764
OPERATING EXPENSES		
Purchased power	13,967,277	-
Material, maintenance and other	2,107,893	1,039,786
General and administrative	1,772,811	392,178
Payments in lieu of taxes	1,399,825	125,761
Depreciation	<u>1,788,565</u>	<u>823,999</u>
Total operating expenses	<u>21,036,371</u>	<u>2,381,724</u>
OPERATING INCOME	1,141,679	292,040
NONOPERATING REVENUE (EXPENSES)		
Investment income	100,005	68
Interest expense	(190,388)	(212,546)
(Loss) Gain on sale of assets	-	-
Other	<u>216,461</u>	<u>300</u>
Total non-operating revenue (expenses)	<u>126,078</u>	<u>(212,178)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,267,757	79,862
CAPITAL CONTRIBUTIONS	-	277,362
TRANSFERS		
Transfers in	80,000	588,000
Transfers out	<u>-</u>	<u>-</u>
Total transfers	<u>80,000</u>	<u>588,000</u>
CHANGE IN NET ASSETS	1,347,757	945,224
NET ASSETS - BEGINNING OF YEAR	<u>32,174,762</u>	<u>6,671,202</u>
NET ASSETS - ENDING OF YEAR	<u><u>\$ 33,522,519</u></u>	<u><u>\$ 7,616,426</u></u>

See accompanying notes to the financial statements

Water Fund	Economic Development Fund	Total	Internal Service Funds
\$ 1,157,650	\$ -	\$ 25,655,683	\$ 3,034,127
-	-	40,347	-
-	5,428	5,428	-
<u>10,498</u>	<u>-</u>	<u>323,932</u>	<u>208,894</u>
1,168,148	5,428	26,025,390	3,243,021
-	-	13,967,277	-
419,032	-	3,566,711	1,980,621
356,018	-	2,521,007	512,768
68,894	-	1,594,480	-
<u>303,148</u>	<u>-</u>	<u>2,915,712</u>	<u>430,064</u>
<u>1,147,092</u>	<u>-</u>	<u>24,565,187</u>	<u>2,923,453</u>
21,056	5,428	1,460,203	319,568
99	3,566	103,738	2,220
(40,926)	-	(443,860)	(35,875)
-	-	-	27,898
<u>15,239</u>	<u>-</u>	<u>232,000</u>	<u>-</u>
<u>(25,588)</u>	<u>3,566</u>	<u>(108,122)</u>	<u>(5,757)</u>
(4,532)	8,994	1,352,081	313,811
-	-	277,362	-
462,000	-	1,130,000	-
<u>-</u>	<u>(1,050,000)</u>	<u>(1,050,000)</u>	<u>-</u>
<u>462,000</u>	<u>(1,050,000)</u>	<u>80,000</u>	<u>-</u>
457,468	(1,041,006)	1,709,443	313,811
<u>3,088,203</u>	<u>1,146,119</u>	<u>43,080,286</u>	<u>2,898,967</u>
<u>\$ 3,545,671</u>	<u>\$ 105,113</u>	<u>\$ 44,789,729</u>	<u>\$ 3,212,778</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, 2010

Changes in net assets - total enterprise funds	\$ 1,709,443
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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>48,848</u>
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Change in net assets of business-type activities	<u>\$ 1,758,291</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, 2010

	Electric Fund	Sanitary Sewer Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 21,819,915	\$ 2,688,806
Receipts from operating grants	9,928	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	296,299	17,135
Payments to employees and suppliers	<u>(17,768,374)</u>	<u>(3,145,932)</u>
Net cash provided by (used for) operating activities	4,357,768	(439,991)
Cash flows from non-capital financing activities		
Contributions and other receipts	216,461	300
Transfers in	80,000	588,000
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	296,461	588,300
Cash flows from capital and related financing activities		
Principal paid on debt	(492,224)	(630,000)
Interest paid on debt	(197,488)	(212,546)
Receipts from interfund advances	121,256	-
Payments against interfund advances	(190,000)	-
Customer deposits	37,532	-
Acquisition of capital assets	(1,619,579)	(920,639)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	-	41,156
Proceeds from issuance of debt	<u>-</u>	<u>1,157,636</u>
Net cash provided by (used for) capital and related financing activities	(2,340,503)	(564,393)
Cash flows from investing activities		
Interest received on investments	127,197	68
Purchase of investments	(11,505,196)	-
Proceeds from maturity of investments-	11,402,925	-
Collections of loans receivable	<u>46,946</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>71,872</u>	<u>68</u>
Net increase (decrease) in cash	2,385,598	(416,016)
Cash - beginning of year	<u>1,287,648</u>	<u>416,576</u>
Cash - ending of year	<u>\$ 3,673,246</u>	<u>\$ 560</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,375,855	\$ -	\$ 25,884,576	\$ 160,593
-	-	9,928	-
-	20,571	20,571	-
-	-	-	3,034,127
-	5,428	5,428	-
10,498	-	323,932	-
<u>(1,153,139)</u>	<u>-</u>	<u>(22,067,445)</u>	<u>(2,382,409)</u>
233,214	25,999	4,176,990	812,311
15,791	-	232,552	-
462,000	-	1,130,000	-
<u>-</u>	<u>(1,050,000)</u>	<u>(1,050,000)</u>	<u>-</u>
477,791	(1,050,000)	312,552	-
(50,000)	-	(1,172,224)	(105,764)
(40,926)	-	(450,960)	(35,875)
190,000	-	311,256	-
(121,256)	-	(311,256)	-
-	-	37,532	-
(51,032)	-	(2,591,250)	(70,122)
-	-	-	27,898
-	-	41,156	-
<u>-</u>	<u>-</u>	<u>1,157,636</u>	<u>-</u>
(73,214)	-	(2,978,110)	(183,863)
99	3,566	130,930	2,220
-	-	(11,505,196)	-
-	-	11,402,925	-
<u>-</u>	<u>-</u>	<u>46,946</u>	<u>-</u>
<u>99</u>	<u>3,566</u>	<u>75,605</u>	<u>2,220</u>
637,890	(1,020,435)	1,587,037	630,668
<u>59,658</u>	<u>1,059,190</u>	<u>2,823,072</u>	<u>2,786,650</u>
<u>\$ 697,548</u>	<u>\$ 38,755</u>	<u>\$ 4,410,109</u>	<u>\$ 3,417,318</u>

CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT CASH FLOWS - Continued
 YEAR ENDED SEPTEMBER 30, 2010

	Electric Fund	Sanitary Sewer Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 1,141,679	\$ 292,040
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,788,565	823,999
Provision for bad debts	-	-
Provision for purchased power adjustment	140,000	-
(Increase) decrease in:		
Accounts receivable	(43,620)	32,177
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	(30,419)	-
Inventory	(4,766)	(16,095)
Due from other funds	1,109,873	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	175,376	(468,617)
Accrued expenses	58,949	6,378
Due to other funds	-	(1,109,873)
Deferred revenue	<u>22,131</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 4,357,768</u>	<u>\$ (439,991)</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 21,056	\$ 5,428	\$ 1,460,203	\$ 319,568
303,148	-	2,915,712	430,064
-	-	-	-
-	-	140,000	-
(13,899)	-	(25,342)	44,993
-	20,571	20,571	-
-	-	-	-
-	-	(30,419)	-
(11,313)	-	(32,174)	(1,063)
-	-	1,109,873	-
-	-	-	-
(70,746)	-	(363,987)	16,931
4,968	-	70,295	(170)
-	-	(1,109,873)	1,988
-	-	22,131	-
<u>\$ 233,214</u>	<u>\$ 25,999</u>	<u>\$ 4,176,990</u>	<u>\$ 812,311</u>

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2010

	Pension Trust Fund	Agency Fund	Combining Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 85,811	\$ 73,582	\$ 159,393
Investments at market value			
Money market funds	773,998	-	773,998
U.S. Government agencies	5,293,205	-	5,293,205
Mutual funds	3,580,625	-	3,580,625
Common and preferred stock	15,427,196	-	15,427,196
Accounts receivable	-	864	864
Dividends and interest receivable	35,472	-	35,472
	<u>25,196,307</u>	<u>74,446</u>	<u>25,270,753</u>
Total assets			
	25,196,307	74,446	25,270,753
<u>LIABILITIES</u>			
Accounts payable	36,851	-	36,851
Due to other governmental units	-	39,503	39,503
Other liabilities	-	34,943	34,943
	<u>36,851</u>	<u>74,446</u>	<u>111,297</u>
Total liabilities			
	36,851	74,446	111,297
NET ASSETS			
Held in trust for pension benefits	<u>\$ 25,159,456</u>	<u>\$ -</u>	<u>\$ 25,159,456</u>

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 975,269
Employee	<u>129,171</u>
Total contributions	1,104,440
Investment income:	
Interest and dividends	1,275,826
Net appreciation (depreciation) in fair value of investments	2,917,844
Investment expenses	<u>(215,255)</u>
Total investment income	<u>3,978,415</u>
Total additions	5,082,855
DEDUCTIONS	
Benefits	1,719,679
Administrative expense	47,167
Transfer to Sturgis Hospital, Inc. pension plan trust	<u>33,417,787</u>
Total deductions	<u>35,184,633</u>
Net increase (decrease)	(30,101,778)
Net assets held in trust for pension benefits	
Beginning of year	<u>55,261,234</u>
End of year	<u>\$ 25,159,456</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 86,240	\$ 266,576
Accounts receivable	1,988	103,579
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets		
Other capital assets, net of depreciation	<u>491,914</u>	<u>-</u>
 Total assets	 580,142	 370,155
<u>LIABILITIES</u>		
Accounts payable	4,394	102,532
Rental deposits	1,150	-
Deferred revenue	45,249	-
 Debt Obligations:		
Due within one year	17,318	-
Due in more than one year	<u>173,776</u>	<u>608,382</u>
 Total liabilities	 241,887	 710,914
NET ASSETS		
Invested in capital assets, net of related debt	300,820	-
Unrestricted (deficit)	<u>37,435</u>	<u>(340,759)</u>
 Total net assets (deficit)	 <u>\$ 338,255</u>	 <u>\$ (340,759)</u>

See accompanying notes to the financial statements

Local Development Finance Authority	Building Authority	Combined Totals
\$ -	\$ -	\$ 352,816
102	-	105,669
-	190,000	190,000
-	10,005,000	10,005,000
-	-	<u>491,914</u>
102	10,195,000	11,145,399
102	-	107,028
-	-	1,150
-	-	45,249
22,224	190,000	229,542
<u>155,552</u>	<u>10,005,000</u>	<u>10,942,710</u>
177,878	10,195,000	11,325,679
-	-	300,820
<u>(177,776)</u>	<u>-</u>	<u>(481,100)</u>
<u><u>\$ (177,776)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (180,280)</u></u>

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 129,459	\$ 24,566	\$ 977
Brownfield Redevelopment Authority	354,739	-	16,900
Local Development Finance Authority	-	-	-
Building Authority	<u>465,848</u>	<u>465,848</u>	<u>-</u>
Total discretely presented component units	<u>\$ 950,046</u>	<u>\$ 490,414</u>	<u>\$ 17,877</u>

General revenues:
Captured property taxes
Unrestricted
investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net assets (deficit) - beginning of year

Net assets (deficit) - end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Change in Net Assets

<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ (103,916)	\$ -	\$ -	\$ -	\$ (103,916)
-	(337,839)	-	-	(337,839)
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(103,916)	(337,839)	-	-	(441,755)
93,283	-	22,224	-	115,507
460	-	-	-	460
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>93,743</u>	<u>-</u>	<u>22,224</u>	<u>-</u>	<u>115,967</u>
(10,173)	(337,839)	22,224	-	(325,788)
<u>348,428</u>	<u>(2,920)</u>	<u>(200,000)</u>	<u>-</u>	<u>145,508</u>
<u>\$ 338,255</u>	<u>\$ (340,759)</u>	<u>\$ (177,776)</u>	<u>\$ -</u>	<u>\$ (180,280)</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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 accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity (as amended by GASB Statement 39); and Statement of Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of the City of Sturgis (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units

- a. The Downtown Development Authority was created as a tax-increment financing (TIF) district 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.

Complete financial statements of the Downtown Development Authority may be obtained at their administrative office: 208 W. Chicago Rd, Sturgis, MI 49091

- b. The Brownfield Redevelopment Authority was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed Brownfield zones. The Authority is financed by the tax increment financing, Federal grants, State grants, and State loans and has named the City of Sturgis as its fiscal agent. Members of the Brownfield Development Authority are approved by the City Commission.
- c. The Local Development Finance Authority's (LDFA) purpose is to finance improvements, through the use of tax increment financing, within the City's borders. The LDFA was established as a tax increment financing (TIF) district in 2008 in accordance with Act 281 of the Public Acts of 1987, as amended. Members of the Local Development Finance Authority are approved by the City Commission.
- d. The City of Sturgis Building Authority was established pursuant to Act 31 of the Public Acts of 1948, as amended. Its purpose is to provide for the acquisition and construction of certain public buildings including hospital buildings and additions. Members of the Building Authority are approved by the City Commission. The Building Authority is treated as a discretely presented component unit as the only project has been for hospital building addition operated by Sturgis Hospital, Inc. a non-component unit of the City. Debt obligations are financed by a lease agreement with Sturgis Hospital, INC.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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.

Economic Development Fund - To account for loans to businesses located within the City for economic development.

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgets and Budgetary Accounting - 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 2010, 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, 2010**

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, 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, 2010, was \$10.0285 per \$1,000 of taxable valuation. The 2009 taxable value of the City was \$283,746,053.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, 2010

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, 2010

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	\$ 14,424,869	\$ 11,043,262	\$ 25,468,131
Restricted assets	-	880,117	880,117
Component Units:			
Cash and Investments	352,816	-	352,816
Fiduciary Funds:			
Cash and cash equivalents	159,393	-	159,393
Investments	<u>-</u>	<u>25,075,024</u>	<u>25,075,024</u>
Total	<u>\$ 14,937,078</u>	<u>\$ 36,998,403</u>	<u>\$ 51,935,481</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, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2010, 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						
Century Bank - Northern Trust- Northern Inst. Govt. Portfolio	\$ 1,754,021					Not Rated
Citizens Bank - SEI Daily Income Treasury II Money Market	12,018					Not Rated
Citizens Bank - Mutual Fund- Vanguard Short-Term Fed-Adm.	173,792					Not Rated
U.S. Government Agencies	<u>9,983,548</u>	2,437,314	3,002,865	4,543,369		AAA-AA
Total Primary Government	<u>11,923,379</u>					
Pension Trust Fund						
Sturgis Bank and Trust Co.						
Federated Government Obligations						
Tax MDG FD PRIN	773,998					Not Rated
U.S. Government Agencies	5,293,205	1,350,580	1,682,500	892,860	1,367,265	AAA-AA
PIMCO Fixed Income Series C Instl	1,791,407					Not Rated
PIMCO Fixed Income SHS Series M Instl	1,789,218					Not Rated
Common and Preferred Stocks	<u>15,427,196</u>					N/A
Total Pension Trust Fund	<u>25,075,024</u>					
Total Investments	<u>\$36,998,403</u>					

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, 2010, the City had \$2,000,000 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, 2010

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 76 percent special assessments, 3.4 percent property tax, 14.6 percent due from other governments, 5.1 percent accounts receivable, and 0.9 percent accrued interest. Business-type activities receivables are 68 percent due from customers, 10.4 percent loans, 20.2 percent special assessments, and 1.4 percent accrued interest.

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)	\$ -	\$2,795,431	\$2,795,431
Special assessments not yet due (General, major and local street funds)	631,504	-	631,504
Customer deposits for future services/events (general and special revenue funds)	-	57,393	57,393
	<u>\$ 631,504</u>	<u>\$2,852,824</u>	<u>\$3,484,328</u>
Component Units			
Property taxes levied and collected for next fiscal years operation	\$ -	\$ 43,649	\$ 43,649
Grant funds collected in advance of project costs	-	1,600	1,600
	<u>\$ -</u>	<u>\$ 45,249</u>	<u>\$ 45,249</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2010:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Airport	\$ 20,000	Capital Projects	\$ 20,000
General	\$ 1,988	Workers Compensation	\$ 1,988
Totals	<u>\$ 21,988</u>		<u>\$ 21,988</u>
<u>Advances from/to other funds</u>			
Electric	\$ 661,744	Water	\$ 661,744
Total Primary Government	<u>\$ 683,732</u>		<u>\$ 683,732</u>

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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2010:

Fund	Transfers Out	Fund	Transfers In
General	\$ 1,136,100	Municipal Street	\$ 200,000
		Building Department	30,000
		Housing Development	10,000
		Cemetery	130,000
		Drug Enforcement	15,000
		Parks and Recreation	345,000
		Civic Auditorium - operating	220,000
		Civic Auditorium - debt service	46,100
		Airport	60,000
		Electric	80,000
	<u>1,136,100</u>		<u>1,136,100</u>
Capital Projects	35,711	Civic Auditorium	7,650
		Doyle Community Center	8,061
		Airport	20,000
	<u>35,711</u>		<u>35,711</u>
Economic Development	<u>1,050,000</u>	Sanitary Sewer	588,000
	<u>1,050,000</u>	Water	462,000
			<u>1,050,000</u>
Airport	<u>5,000</u>	Capital Projects	<u>5,000</u>
Cemetery Trust	<u>14,194</u>	Cemetery	<u>14,194</u>
Total Primary Government	<u>\$ 2,241,005</u>		<u>\$ 2,241,005</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, 2010

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2010, was as follows:

	Balance October 1, 2009	Additions	Disposals	Balance September 30, 2010
<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	4,061,007	-	-	4,061,007
Buildings and improvements	7,373,262	-	-	7,373,262
Machinery and equipment	1,605,893	68,302	74,687	1,599,508
Vehicles	2,727,042	45,018	289,217	2,482,843
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	18,298,634	113,320	363,904	18,048,050
Accumulated depreciation				
Infrastructure	1,208,352	144,292	-	1,352,644
Land improvements	1,089,418	203,050	-	1,292,468
Buildings and improvements	1,978,768	229,534	-	2,208,302
Machinery and equipment	1,391,354	75,919	74,687	1,392,586
Vehicles	1,943,958	264,768	289,217	1,919,509
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	<u>7,978,900</u>	<u>917,563</u>	<u>363,904</u>	<u>8,532,559</u>
Net capital assets being depreciated	<u>10,319,734</u>			<u>9,515,491</u>
Net capital assets	<u>\$10,885,994</u>			<u>\$10,081,751</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2009	Additions	Disposals/ Transfers	Balance Sept. 30, 2010
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 741,382	\$ -	\$ -	\$ 741,382
Construction in progress	<u>7,013,286</u>	<u>1,253,104</u>	<u>1,393,347</u>	<u>6,873,043</u>
Subtotal	7,754,668	1,253,104	1,393,347	7,614,425
Capital assets, being depreciated:				
Land improvements	1,474,936	-	-	1,474,936
Buildings, improvements and system	85,718,632	2,731,493	3,412,335	85,037,790
Machinery and equipment	1,839,248	1,743	794,184	1,046,807
Vehicles	1,004,086	19,294	123,950	899,430
Office furniture and equipment	<u>27,499</u>	<u>-</u>	<u>7,547</u>	<u>19,952</u>
Subtotal	90,064,401	2,752,530	4,338,016	88,478,915
Accumulated depreciation				
Land improvements	472,704	98,330	-	571,034
Buildings, improvements and system	53,735,175	2,817,382	3,412,335	53,140,222
Machinery and equipment	1,237,761	32,536	794,184	476,113
Vehicles	772,218	56,841	123,950	705,109
Office furniture and equipment	<u>27,499</u>	<u>-</u>	<u>7,547</u>	<u>19,952</u>
Subtotal	<u>56,245,357</u>	<u>3,005,089</u>	<u>4,338,016</u>	<u>54,912,430</u>
Net capital assets being depreciated	<u>33,819,044</u>			<u>33,566,485</u>
Net capital assets	<u>\$41,573,712</u>			<u>\$41,180,910</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 266,987	Electric	\$ 1,843,391
Public safety	297,088	Sanitary Sewer	849,258
Public works	192,284	Water	<u>312,440</u>
Recreation and cultural	<u>161,204</u>		
Total	<u>\$ 917,563</u>	Total	<u>\$ 3,005,089</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2010</u>
Capital assets, being depreciated				
Land improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Buildings and improvements	<u>404,364</u>	<u>-</u>	<u>-</u>	<u>404,364</u>
Subtotal	688,026		-	688,026
Accumulated depreciation				
Land improvements	52,080	18,910	-	70,990
Buildings and improvements	<u>104,904</u>	<u>20,218</u>	<u>-</u>	<u>125,122</u>
Subtotal	<u>156,984</u>	<u>39,128</u>	<u>-</u>	<u>196,112</u>
Net capital assets being depreciated	<u>\$ 531,042</u>			<u>\$ 491,914</u>

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

Downtown Development Authority	<u>\$ 39,128</u>
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CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Current Portion
Governmental Activities					
Loans payable	\$ 963,363	\$ -	\$ 146,554	\$ 816,809	\$ 140,798
Compensated absences	680,624	388,841	417,839	651,626	-
Net OPEB obligation	<u>1,688,353</u>	<u>1,814,550</u>	<u>363,986</u>	<u>3,138,917</u>	<u>-</u>
	3,332,340	2,203,391	928,379	4,607,352	140,798
Business-Type Activities					
Revenue bonds	14,084,206	1,157,636	1,150,000	14,091,842	1,185,000
Loans payable	105,548	-	22,224	83,324	22,224
Compensated absences	172,000	148,807	124,807	196,000	-
Net OPEB obligation	<u>120,000</u>	<u>234,413</u>	<u>199,413</u>	<u>155,000</u>	<u>-</u>
	<u>14,481,754</u>	<u>1,540,856</u>	<u>1,496,444</u>	<u>14,526,166</u>	<u>1,207,224</u>
Total Primary Government Long-Term Debt	<u>\$17,814,094</u>	<u>\$ 3,744,247</u>	<u>\$ 2,424,823</u>	<u>\$19,133,518</u>	<u>\$ 1,348,022</u>

Long-term debt payables at September 30, 2010, 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 \$3,777 \$ 31,200

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 \$270,000 328,242

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 \$333,967 354,940

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6 - 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	102,427
Compensated absences	651,626
Net OPEB obligation	<u>3,138,917</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 4,607,352</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	\$ 3,915,000
\$1,086,070 2007 State/Drinking Water Revolving Fund loan payable annually, beginning October 1, 2009 and ending October 1, 2027, ranging from \$45,000 to \$66,070, including interest paid semi-annually at 2.125%	941,070
\$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	2,310,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2010 and ending April 1, 2028, ranging from \$115,000 to \$145,000, including interest paid semi-annually at 1.625%	2,405,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$345,000 plus interest at 2.50%, final payment due October 1, 2029	4,520,185
Note payable to Michigan Economic Development Corporation, non-interest bearing, monthly payment of \$1,852	83,324

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

Compensated Absences	196,000
Net OPEB Obligation	<u>155,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>14,526,166</u>
Total Primary Government Long-Term Debt	<u>\$19,133,518</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2010 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 140,798	\$ 34,377	\$ 175,175
2012	114,678	29,241	143,919
2013	89,227	24,215	113,442
2014	77,380	20,464	97,844
2015	81,170	16,674	97,844
2016-2020	218,678	46,627	265,305
2021-2023	<u>94,878</u>	<u>3,192</u>	<u>98,070</u>
Total	<u>\$ 816,809</u>	<u>\$ 174,790</u>	<u>\$ 991,599</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,207,224	\$ 403,862	\$ 1,611,086
2012	1,242,224	368,842	1,611,066
2013	1,272,224	332,716	1,604,940
2014	1,311,652	295,554	1,607,206
2015	1,340,000	251,536	1,591,536
2016-2020	4,190,000	658,684	4,848,684
2021-2025	2,485,000	282,538	2,767,538
2026-2030	<u>1,126,842</u>	<u>45,536</u>	<u>1,172,378</u>
Total	<u>\$ 14,175,166</u>	<u>\$ 2,639,268</u>	<u>\$ 16,814,434</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Current Portion
Loan Payable	\$ 207,576	\$ -	\$ 16,482	\$ 191,094	\$ 17,318

Long-term debt payable at September 30, 2010, 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	\$ 191,094
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2010 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 17,318	\$ 8,668	\$ 25,986
2012	18,122	7,864	25,986
2013	19,002	6,984	25,986
2014	19,924	6,062	25,986
2015	20,891	5,095	25,986
2016-2020	<u>95,837</u>	<u>10,272</u>	<u>106,109</u>
Total	<u>\$ 191,094</u>	<u>\$ 44,945</u>	<u>\$ 236,039</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2010</u>	Current <u>Portion</u>
Loan Payable	\$ 50,000	\$ 558,382	\$ -	\$ 608,382	\$ -

Long-term debt payable at September 30, 2010, consisted of the following individual issue:

Note payable to Michigan Department of Environmental Quality in the amount of \$1,000,000, annual payment of \$97,826 including interest at 1.50%, first payment due June 26, 2014, final payment due June 26, 2024, currently in the draw down period \$ 608,382

Local Development Finance Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2010</u>	Current <u>Portion</u>
Loan Payable	\$ 200,000	\$ -	\$ 22,224	\$ 177,776	\$ 22,224

Long-term debt payable at September 30, 2010, consisted of the following individual issue:

Note payable to City of Sturgis Electric Fund, no specific repayment terms \$ 177,776

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2010:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Current Portion
Revenue					
Bonds	<u>\$10,375,000</u>	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 10,195,000</u>	<u>\$ 190,000</u>

Long-term debt payable at September 30, 2010, consisted of the following individual issues:

Sturgis Building Authority 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%

9,290,000

Sturgis Building Authority 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%

905,000

Total revenue bonds

\$ 10,195,000

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2010 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 190,000	\$ 458,272	\$ 648,272
2012	200,000	451,047	651,047
2013	220,000	443,447	663,447
2014	230,000	435,072	665,072
2015	245,000	425,810	670,810
2016-2020	1,480,000	1,967,210	3,447,210
2021-2025	2,015,000	1,613,270	3,628,270
2026-2030	2,735,000	1,089,870	3,824,870
2031-2035	<u>2,880,000</u>	<u>352,718</u>	<u>3,232,718</u>
Total	<u>\$ 10,195,000</u>	<u>\$ 7,236,716</u>	<u>\$ 17,431,716</u>

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2010, the Water Fund reflected advances due to the following fund:

Electric Fund

Payable in semi-annual installments of \$20,788 including interest at 3.339% final payment due July 28, 2015	\$190,000
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Payable in semi-annual installments of \$70,891 including interest at 3.695%, final payment due August 1, 2014	<u>471,744</u>
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Total Advances Due to Other Funds	<u>\$ 661,744</u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 8 - NOTES RECEIVABLE

At September 30, 2010, 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 \$ 65,890

At September 30, 2010, the Electric Fund reflected the following note receivable:

Note receivable from Sturgis Hospital, Inc.
collectible in monthly installments
of \$2,247, plus interest at 6%, due
in full September 30, 2023 \$ 352,848

NOTE 9 - LEASE RECEIVABLE

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2010, the Building Authority reflected the following lease receivable:

Lease receivable from Sturgis Hospital, Inc.
collectible in monthly installments
beginning March 1, 2010 and ending
September 1, 2034, ranging from \$322,561
to \$411,159, receipts are pledged to the
payment of the principal and interest on the
Authority Bonds payable \$ 10,195,000

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 10 - 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.

During the year ended September 30, 2010, a total of \$113,728 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, 2010, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	113,728
Claim payments	<u>(113,728)</u>
Claims liability September 30	<u>\$ 20,000</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 \$416,113 in 2010 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2010, was as follows:

Claims liability October 1	\$ 290,000
Current year claims and changes in estimates	416,113
Claim payments	<u>(416,113)</u>
Claims liability September 30	<u>\$ 290,000</u>

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457, that is administered by ICMA Retirement Corporation. The plan, available to all city employees, permits them to defer a portion of their payroll until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Participants may contribute any amount allowed by the plan. The City will match the employee contribution at different percentages based on the employee group. In fiscal year 2010, the City contributed \$104,945 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

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 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, 2009, the date of the most recent actuarial valuation, membership consisted of 85 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 93 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.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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.

Annual Pension Cost

For the year ended September 30, 2010, the City's annual pension cost of \$975,269 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, 2009, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.5 to 17.5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The assets as of the valuation date exceed the accrued liabilities for all divisions.

Trend Information

<u>Year Ended</u> <u>September 30,</u>	<u>Annual</u> <u>Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2008	\$ 1,465,213	100%	\$ -
2009	1,336,183	100%	-
2010	975,269	100%	-

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

(DECEMBER 31, 2009)

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 and Electrical:	General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
Age 60 with 10 year of service or 65 with 5 years of service.	Electrical - 2.0% 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 (hired prior to March 1, 2008), Non-Union (hired prior to January 1, 2009)	Computed as a regular retirement but based upon service and final average compensation at termination date.
Electric (hired on or after March 1, 2008) and Non-Union (hired on or after January 1, 2009): 8 years of service.	
Fire: 8 years of service, 5 years of service if retiring at age 60	
Other: 10 years of service.	
Benefit begins at normal retirement age.	

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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.

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

General (hired on or after January 1, 2009), Electric (hired on or after March 1, 2008), Police (hired on or after October 1, 2008) and Fire

General, Electric and Police: 20% of the pension cost allocated for that employee as determined by the City actuary on an annual basis. Fire: 4.3%

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

MEMBER FAC FACTOR BUY-UP CONTRIBUTIONS

Electrical, Police, Fire,	½ of the cost associated with
(Discontinued at 10/1/2011),	certain benefit changes.
Dispatchers	(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.
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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>2009</u>	<u>2008</u>	<u>2007</u>
Annual Pension Cost (APC) \$	1,513,384	\$ 1,504,203	\$ 1,777,822
Percentage of APC contributed	103%	106%	96%
Actuarial value of assets	24,816,540	56,290,729	59,624,229
Actuarial accrued liability (entry age)	24,881,869	60,214,115	57,592,906
(Under) Overfunded actuarial accrued liability	(65,329)	(3,923,386)	2,031,323
Funded ratio	99.7%	93.5%	104%
Covered payroll	4,973,462	19,473,919	19,355,000
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	(1.3)%	(20)%	11%

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 (reset 12/31/06)

Principal actuarial assumptions (last revised for the 12/31/97 valuation):

- Net investment return* - 7.0%
- Projected salary increases* - 4.5% to 17.5%
- Cost of living adjustments - none

* includes pay inflation at 4.5%

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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 \$3,138,917 and \$155,000 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 City covers the majority of the cost by purchasing health care insurance. Currently, 92 retirees are eligible for health care benefits of which 65 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 2010 the City contributed \$563,399 to the Plan of which \$563,399 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, 2010**

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	\$ 2,048,963
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>2,048,963</u>
Contributions made	(563,399)
Increase in net OPEB obligation	1,485,564
Net OPEB obligation - beginning of year	<u>1,808,353</u>
Net OPEB obligation - end of year	<u>\$ 3,293,917</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010, 2009 and 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
9/30/09	1,474,042	35.1%	1,808,353
9/30/10	2,048,963	27.5%	3,293,917

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 three preceding years.

Funding Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$17,475,336, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,475,336. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$4,973,462, and the ratio of the UAAL to the covered payroll equaled 351%.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

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, 2009, 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, 2010**

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 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.

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, 2010, the City incurred purchased power cost under this agreement of \$13,834,070 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$500,000 for future true-up cost charges.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 16 - CONSTRUCTION COMMITMENTS

The City has the following active construction projects as of September 30, 2010:

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, 2010, \$6,436,444 has been spent on this project. The City has received \$1,822,200 in contributed capital funds. 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, 2010, \$4,735,185 has been drawn from this fund.

Discretely Presented Component Units

Brownfield Redevelopment Authority

The Authority entered into a construction commitment for the Kirsch Lofts/Prospect revitalize environmentally distressed project with a projected project cost of \$2,000,000. As of September 30, 2010, \$1,337,840 has been spent on this project. The Authority has received \$1,000,000 in Michigan Department of Environmental Quality grant funds. The Authority has been approved for a \$1,000,000 Michigan DEQ loan. As of September 30, 2010, \$1,000,000 has been drawn on the grant and \$608,382 has been drawn on the loan.

NOTE 17 - 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, 2010, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

None Were Material

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 18 - SUBSEQUENT EVENTS

On December 8, 2010 the City issued \$4,400,000 in Limited Tax General Obligation Capital Improvement Bonds, Series 2010 (Taxable)(Recovery Zone Economic Development Bonds). Proceeds from the sale of the Bonds will be used to construct, equip and furnish a public utility building in the City and to make certain energy conservation improvements to the City's public buildings.

The City has been awarded a U.S. Department of Commerce grant in the amount of \$1,166,000 for the expansion of water and sewer infrastructure to the Dresser Industrial Park. An anticipated additional \$1,284,000 in funds will be used from the water and sewer funds for this project.

NOTE 19 - RESTATEMENT OF NET ASSETS

On November 3, 2009, the citizens of the City approved a referendum to transfer essentially all assets and liabilities of the Hospital Fund to Sturgis Hospital, Inc., a not-for-profit entity controlled by a Board of Directors which will have no oversight or control by the City. The transfer was effective January 1, 2010. Financial information for the Hospital fund was not available for the short period of October 1 through December 31, 2009.

The transfer of Sturgis Hospital fund (a component unit fund) to Sturgis Hospital, Inc. (a non-component entity) had the following effect on these financial statements.

Beginning net assets of the Business Type Activities and Proprietary Funds were reduced by \$ 16,455,476.

The Building Authority component unit which had in prior years been blended into the Hospital fund is currently presented as a discretely presented component unit.

The City Pension Trust Fund presents a transfer to Sturgis Hospital, Inc. Pension Plan Trust in the fair market value amount of \$33,417,787 based on actuary computation.

The Hospital Trust Fund presents a transfer to the Sturgis Community Foundation in the amount of \$51,669.

CITY OF STURGIS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 20 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority and the Local Development Finance Authority component units had deficits in net assets at September 30, 2010, of \$340,759 and \$177,776, respectively. For the BDA and the LDFA, these deficits existed as a result of presenting the financial statements for these component units on the full accrual basis in accordance with GAAP. On a modified accrual fund basis the BDA and the LDFA did not present deficit fund balances. The City plans to eliminate the net assets deficits with future tax increment financing collections.

NOTE 21 - GASB PRONOUNCEMENTS

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under the standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the year ending September 30, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,867,044	\$2,867,044	\$2,894,207	\$ 27,163
Special assessments	6,000	6,000	6,036	36
Licenses and permits	49,750	49,750	64,211	14,461
Federal grants	-	86,882	94,597	7,715
State grants	4,000	54,600	63,073	8,473
State shared revenue	913,000	913,000	895,210	(17,790)
Charges for services	113,000	113,000	120,138	7,138
Fines and forfeits	32,000	32,000	33,713	1,713
Investment income	300,000	400,000	449,597	49,597
Payments in lieu of taxes	1,594,515	1,594,515	1,594,480	(35)
Administrative reimbursement	946,753	946,753	946,752	(1)
Other	57,000	57,000	74,839	17,839
Total revenue	6,883,062	7,120,544	7,236,853	116,309
EXPENDITURES				
Legislative	40,911	40,911	37,292	3,619
General government	1,413,423	1,414,073	1,362,924	51,149
Public safety	3,893,559	3,945,559	3,837,359	108,200
Public works	312,215	312,215	292,851	19,364
Health and welfare	62,860	62,860	60,579	2,281
Recreation and cultural	50,150	50,150	49,995	155
Capital outlay	20,000	124,004	117,529	6,475
Total expenditures	5,793,118	5,949,772	5,758,529	191,243
EXCESS OF REVENUE OVER EXPENDITURES	1,089,944	1,170,772	1,478,324	307,552
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(1,096,100)	(1,136,100)	(1,136,100)	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(6,156)	34,672	342,224	307,552
FUND BALANCE - BEGINNING OF YEAR	2,036,208	2,036,208	2,036,208	-
FUND BALANCE - END OF YEAR	\$ 2,030,052	\$2,070,880	\$2,378,432	\$ 307,552

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 43,800	\$ 43,800	\$ 43,800	\$ -
State grants	61,000	49,000	67,942	18,942
State shared revenue	500,000	482,705	497,618	14,913
Other	<u>5,000</u>	<u>-</u>	<u>59</u>	<u>59</u>
 Total revenue	 609,800	 575,505	 609,419	 33,914
 EXPENDITURES				
Public works	<u>603,798</u>	<u>586,051</u>	<u>588,009</u>	<u>(1,958)</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 6,002	 (10,546)	 21,410	 31,956
 FUND BALANCE - BEGINNING OF YEAR	 <u>61,732</u>	 <u>61,732</u>	 <u>61,732</u>	 <u>-</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 67,734</u>	 <u>\$ 51,186</u>	 <u>\$ 83,142</u>	 <u>\$ 31,956</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 248,178	\$ 248,178	\$ 261,925	\$ 13,747
Special assessments	-	-	1,486	1,486
State grants	8,000	8,000	8,415	415
State shared revenue	182,920	177,700	183,273	5,573
Investment income	700	700	268	(432)
Other	<u>15,800</u>	<u>15,800</u>	<u>4,976</u>	<u>(10,824)</u>
Total revenue	455,598	450,378	460,343	9,965
EXPENDITURES				
Public works	<u>463,134</u>	<u>455,281</u>	<u>459,794</u>	<u>(4,513)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(7,536)	(4,903)	549	5,452
FUND BALANCE - BEGINNING OF YEAR	<u>202,084</u>	<u>202,084</u>	<u>202,084</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 194,548</u>	<u>\$ 197,181</u>	<u>\$ 202,633</u>	<u>\$ 5,452</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Public works	<u>171,556</u>	<u>235,241</u>	<u>74,074</u>	<u>161,167</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(171,556)	(235,241)	(74,074)	161,167
OTHER FINANCING SOURCES				
Operating transfers in	<u>175,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	3,444	(35,241)	125,926	161,167
FUND BALANCE - BEGINNING OF YEAR	<u>41,744</u>	<u>41,744</u>	<u>41,744</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 45,188</u>	<u>\$ 6,503</u>	<u>\$ 167,670</u>	<u>\$ 161,167</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ 3,000	\$ 500	\$ 1,777	\$ 1,277
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,000	5,000	5,000	-
Operating transfers out	<u>(67,000)</u>	<u>(75,000)</u>	<u>(35,711)</u>	<u>39,289</u>
Total other financing sources (uses)	<u>(62,000)</u>	<u>(70,000)</u>	<u>(30,711)</u>	<u>39,289</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(59,000)	(69,500)	(28,934)	40,566
FUND BALANCE - BEGINNING OF YEAR	<u>214,810</u>	<u>214,810</u>	<u>214,810</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 155,810</u>	<u>\$ 145,310</u>	<u>\$ 185,876</u>	<u>\$ 40,566</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

Schedule of Funding Progress

(Dollars represented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/03#	\$ 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%
12/31/08*	56,291	60,214	3,923	93.5%	19,474	20.1%
12/31/09*	24,817	24,882	65	99.7%	4,973	1.3%

* plan amended # certain assumptions revised

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

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
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%
2008	1,504,203	106.2%
2009	1,513,384	102.6%

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 60, 61, 62, 63, 64 and 65.

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%	\$ 5,107	318%
12/31/07	-	17,702	17,702	0%	4,986	355%
12/31/09	-	17,475	17,475	0%	4,973	351%

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 normal cost method.

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2010

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 328,469	\$ 301,920	\$ 630,389
Investments	-	592,326	592,326
Receivables			
Accounts	24,929	1,191	26,120
Interest	-	2,495	2,495
Due from other funds	20,000	-	20,000
Due from other governmental units	-	-	-
Prepaid expenses	20,510	-	20,510
Inventory	<u>49,419</u>	<u>-</u>	<u>49,419</u>
Total assets	<u>\$ 443,327</u>	<u>\$ 897,932</u>	<u>\$ 1,341,259</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 67,605	\$ -	\$ 67,605
Due to other funds	-	-	-
Accrued expenses	49,918	-	49,918
Deferred revenue	<u>48,810</u>	<u>-</u>	<u>48,810</u>
Total liabilities	166,333	-	166,333
Fund Balance			
Reserved for endowments	-	897,932	897,932
Unreserved, undesignated	<u>276,994</u>	<u>-</u>	<u>276,994</u>
Total fund balance	<u>276,994</u>	<u>897,932</u>	<u>1,174,926</u>
Total liabilities and fund balance	<u>\$ 443,327</u>	<u>\$ 897,932</u>	<u>\$ 1,341,259</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenue			
License and permits	\$ 21,789	\$ -	\$ 21,789
State grants	19,850	-	19,850
Charges for services	1,030,822	3,812	1,034,634
Fines and forfeits	6,420	-	6,420
Investment income	-	16,812	16,812
Contributions	66,986	-	66,986
Other	<u>48,053</u>	<u>-</u>	<u>48,053</u>
Total revenue	1,193,920	20,624	1,214,544
Expenditures			
General government	273,563	-	273,563
Public safety	127,481	-	127,481
Public works	223,270	-	223,270
Recreation and cultural	1,505,770	-	1,505,770
Capital outlay	47,626	-	47,626
Debt service	<u>46,075</u>	<u>-</u>	<u>46,075</u>
Total expenditures	<u>2,223,785</u>	<u>-</u>	<u>2,223,785</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(1,029,865)	20,624	(1,009,241)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	906,005	-	906,005
Operating transfers out	(5,000)	(14,194)	(19,194)
Transfer to Community Foundation	<u>-</u>	<u>(51,669)</u>	<u>(51,669)</u>
Total other financing sources (uses)	<u>901,005</u>	<u>(65,863)</u>	<u>835,142</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(128,860)	(45,239)	(174,099)
FUND BALANCE - BEGINNING OF YEAR	<u>405,854</u>	<u>943,171</u>	<u>1,349,025</u>
FUND BALANCE - END OF YEAR	<u>\$ 276,994</u>	<u>\$ 897,932</u>	<u>\$ 1,174,926</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2010

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 17,222	\$ 18,876	\$ 30,660	\$ 12,657
Accounts receivables	-	-	7,456	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
Total assets	<u>\$ 17,222</u>	<u>\$ 18,876</u>	<u>\$ 38,116</u>	<u>\$ 12,657</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 56	\$ 1,032	\$ 5,691	\$ -
Due to other funds	-	-	-	-
Accrued expenses	2,645	-	6,859	715
Deferred revenue	-	750	-	-
Total liabilities	2,701	1,782	12,550	715
Fund Balance				
Unreserved, undesignated	<u>14,521</u>	<u>17,094</u>	<u>25,566</u>	<u>11,942</u>
Total liabilities and fund balance	<u>\$ 17,222</u>	<u>\$ 18,876</u>	<u>\$ 38,116</u>	<u>\$ 12,657</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>
\$ 59,841	\$ 21,064	\$ 61,912	\$ 56,003	\$ 50,234	\$ 328,469
346	14,072	-	-	3,055	24,929
-	-	-	-	20,000	20,000
-	-	-	-	-	-
-	200	20,310	-	-	20,510
-	<u>20,091</u>	<u>-</u>	<u>459</u>	<u>28,869</u>	<u>49,419</u>
<u>\$ 60,187</u>	<u>\$ 55,427</u>	<u>\$ 82,222</u>	<u>\$ 56,462</u>	<u>\$ 102,158</u>	<u>\$ 443,327</u>
\$ 14,440	\$ 9,081	\$ 1,160	\$ 5,470	\$ 30,675	\$ 67,605
-	-	-	-	-	-
12,700	17,995	971	7,739	294	49,918
-	-	<u>38,270</u>	<u>9,790</u>	<u>-</u>	<u>48,810</u>
27,140	27,076	40,401	22,999	30,969	166,333
<u>33,047</u>	<u>28,351</u>	<u>41,821</u>	<u>33,463</u>	<u>71,189</u>	<u>276,994</u>
<u>\$ 60,187</u>	<u>\$ 55,427</u>	<u>\$ 82,222</u>	<u>\$ 56,462</u>	<u>\$ 102,158</u>	<u>\$ 443,327</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2010

	Building Department Fund	Housing Department Fund	Cemetery Fund	Drug Enforcement Fund
Revenue				
License and permits	\$ 21,789	\$ -	\$ -	\$ -
State grants	-	18,100	-	-
Charges for services	-	-	60,732	-
Fines and forfeits	-	-	-	6,420
Investment income	-	-	-	-
Contributions	-	-	-	-
Other	-	-	3,832	21,311
Total revenue	21,789	18,100	64,564	27,731
Expenditures				
General government	-	34,219	239,344	-
Public safety	84,478	-	-	43,003
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	84,478	34,219	239,344	43,003
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(62,689)	(16,119)	(174,780)	(15,272)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	30,000	10,000	144,194	15,000
Operating transfers out	-	-	-	-
Total other financing sources (uses)	30,000	10,000	144,194	15,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(32,689)	(6,119)	(30,586)	(272)
FUND BALANCE - BEGINNING OF YEAR	47,210	23,213	56,152	12,214
FUND BALANCE - END OF YEAR	<u>\$ 14,521</u>	<u>\$ 17,094</u>	<u>\$ 25,566</u>	<u>\$ 11,942</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,789
1,750	-	-	-	-	19,850
73,061	362,741	72,159	312,136	149,993	1,030,822
-	-	-	-	-	6,420
-	-	-	-	-	-
14,103	-	42,835	10,048	-	66,986
<u>2,826</u>	<u>6,566</u>	<u>406</u>	<u>1,912</u>	<u>11,200</u>	<u>48,053</u>
91,740	369,307	115,400	324,096	161,193	1,193,920
-	-	-	-	-	273,563
-	-	-	-	-	127,481
-	-	-	-	223,270	223,270
467,622	584,520	121,295	332,333	-	1,505,770
4,284	7,650	-	11,273	24,419	47,626
<u>-</u>	<u>46,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,075</u>
<u>471,906</u>	<u>638,245</u>	<u>121,295</u>	<u>343,606</u>	<u>247,689</u>	<u>2,223,785</u>
(380,166)	(268,938)	(5,895)	(19,510)	(86,496)	(1,029,865)
345,000	273,750	-	8,061	80,000	906,005
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
<u>345,000</u>	<u>273,750</u>	<u>-</u>	<u>8,061</u>	<u>75,000</u>	<u>901,005</u>
(35,166)	4,812	(5,895)	(11,449)	(11,496)	(128,860)
<u>68,213</u>	<u>23,539</u>	<u>47,716</u>	<u>44,912</u>	<u>82,685</u>	<u>405,854</u>
<u>\$ 33,047</u>	<u>\$ 28,351</u>	<u>\$ 41,821</u>	<u>\$ 33,463</u>	<u>\$ 71,189</u>	<u>\$ 276,994</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2010

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 301,920	\$ -	\$ 301,920
Investments	592,326	-	592,326
Receivables			
Accounts	1,191	-	1,191
Interest	2,495	-	2,495
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 897,932</u>	 <u>\$ -</u>	 <u>\$ 897,932</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 -	 -	 -
Fund Balance			
Reserved for endowments	897,932	-	897,932
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balance	 <u>897,932</u>	 <u>-</u>	 <u>897,932</u>
 Total liabilities and fund balance	 <u>\$ 897,932</u>	 <u>\$ -</u>	 <u>\$ 897,932</u>

CITY OF STURGIS
NON-MAJOR PERMANENT FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2010

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
	<u> </u>	<u> </u>	<u> </u>
Revenue			
Charges for services	\$ 3,812	\$ -	\$ 3,812
Investment income	<u> 16,812</u>	<u> -</u>	<u> 16,812</u>
Total revenue	20,624	-	20,624
Expenditures			
General government	<u> -</u>	<u> -</u>	<u> -</u>
EXCESS OF REVENUE OVER EXPENDITURES	20,624	-	20,624
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(14,194)	-	(14,194)
Transfer to Community Foundation	<u> -</u>	<u> (51,669)</u>	<u> (51,669)</u>
Total other financing sources (uses)	<u> (14,194)</u>	<u> (51,669)</u>	<u> (65,863)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	6,430	(51,669)	(45,239)
FUND BALANCE - BEGINNING OF YEAR	<u> 891,502</u>	<u> 51,669</u>	<u> 943,171</u>
FUND BALANCE - END OF YEAR	<u><u> 897,932</u></u>	<u><u> -</u></u>	<u><u> 897,932</u></u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 1,505,528	\$ 340,514	\$ 1,571,276	\$ 3,417,318
Receivables	-	1,654	-	1,654
Due from other funds	-	-	-	-
Inventory	<u>7,653</u>	<u>-</u>	<u>-</u>	<u>7,653</u>
Total current assets	1,513,181	342,168	1,571,276	3,426,625
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,012,186</u>	<u>-</u>	<u>-</u>	<u>1,012,186</u>
Total assets	2,525,367	342,168	1,571,276	4,438,811
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	98,242	-	-	98,242
Accounts payable	20,796	20,000	465,592	506,388
Accrued expenses	3,275	-	-	3,275
Due to other funds	<u>-</u>	<u>1,988</u>	<u>-</u>	<u>1,988</u>
Total current liabilities	122,313	21,988	465,592	609,893
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>616,140</u>	<u>-</u>	<u>-</u>	<u>616,140</u>
Total liabilities	738,453	21,988	465,592	1,226,033
NET ASSETS				
Invested in capital assets, net of related debt	297,804	-	-	297,804
Unrestricted	<u>1,489,110</u>	<u>320,180</u>	<u>1,105,684</u>	<u>2,914,974</u>
Total net assets	<u>\$ 1,786,914</u>	<u>\$ 320,180</u>	<u>\$ 1,105,684</u>	<u>\$ 3,212,778</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 842,049	\$ 65,000	\$2,127,078	\$ 3,034,127
Other revenues	<u>911</u>	<u>16,219</u>	<u>191,764</u>	<u>208,894</u>
Total operating revenue	842,960	81,219	2,318,842	3,243,021
OPERATING EXPENSES				
Operating and administrative	430,778	34,140	47,850	512,768
Insurance premiums and claims	-	113,728	1,866,893	1,980,621
Depreciation	<u>430,064</u>	<u>-</u>	<u>-</u>	<u>430,064</u>
Total operating expenses	<u>860,842</u>	<u>147,868</u>	<u>1,914,743</u>	<u>2,923,453</u>
OPERATING INCOME (LOSS)	(17,882)	(66,649)	404,099	319,568
NONOPERATING REVENUE (EXPENSE)				
Investment income	-	1,940	280	2,220
Gain (loss) on sale of fixed assets	27,898	-	-	27,898
Interest expense	<u>(35,875)</u>	<u>-</u>	<u>-</u>	<u>(35,875)</u>
Total nonoperating revenue (expense)	<u>(7,977)</u>	<u>1,940</u>	<u>280</u>	<u>(5,757)</u>
CHANGE IN NET ASSETS	(25,859)	(64,709)	404,379	313,811
NET ASSETS - BEGINNING OF YEAR	<u>1,812,773</u>	<u>384,889</u>	<u>701,305</u>	<u>2,898,967</u>
NET ASSETS - END OF YEAR	<u>\$ 1,786,914</u>	<u>\$ 320,180</u>	<u>\$1,105,684</u>	<u>\$ 3,212,778</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 594	\$ 14,565	\$ 145,434	\$ 160,593
Receipts for internal services provided	842,049	65,000	2,127,078	3,034,127
Payments to suppliers	(407,499)	(145,880)	(1,742,386)	(2,295,765)
Payments to employees	<u>(86,644)</u>	<u>-</u>	<u>-</u>	<u>(86,644)</u>
Net cash provided by (used for) operating activities	348,500	(66,315)	530,126	812,311
Cash flows from capital and related financing activities				
Acquisition of capital assets	(70,122)	-	-	(70,122)
Proceeds from sale of capital assets	27,898	-	-	27,898
Proceeds from long-term debt	-	-	-	-
Principal paid on debt	(105,764)	-	-	(105,764)
Interest paid on debt	<u>(35,875)</u>	<u>-</u>	<u>-</u>	<u>(35,875)</u>
Net cash provided by (used for) capital and related financing activities	(183,863)	-	-	(183,863)
Cash flows from investing activities				
Interest on investments	<u>-</u>	<u>1,940</u>	<u>280</u>	<u>2,220</u>
Net increase (decrease) in cash	164,637	(64,375)	530,406	630,668
Cash - Beginning of Year	<u>1,340,891</u>	<u>404,889</u>	<u>1,040,870</u>	<u>2,786,650</u>
Cash - End of Year	<u><u>\$ 1,505,528</u></u>	<u><u>\$ 340,514</u></u>	<u><u>\$ 1,571,276</u></u>	<u><u>\$ 3,417,318</u></u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2010

	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)	\$ (17,882)	\$ (66,649)	\$ 404,099	\$ 319,568
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	430,064	-	-	430,064
(Increase) decrease in				
Receivables	317	(1,654)	46,330	44,993
Due from other funds	-	-	-	-
Inventory	(1,063)	-	-	(1,063)
Increase (decrease) in				
Accounts payable	(62,766)	-	79,697	16,931
Accrued expenses	(170)	-	-	(170)
Due to other funds	<u>-</u>	<u>1,988</u>	<u>-</u>	<u>1,988</u>
Net cash provided by (used for) operating activities	<u>\$ 348,500</u>	<u>\$ (66,315)</u>	<u>\$ 530,126</u>	<u>\$ 812,311</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2010

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 86,240
Accounts receivable	<u>1,988</u>
Total assets	<u><u>\$ 88,228</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 4,394
Customer deposits	1,150
Deferred revenue	<u>45,249</u>
Total liabilities	50,793
Fund Balance	
Unreserved, undesignated	<u>37,435</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 88,228</u></u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS

Total fund balance - governmental fund	\$ 37,435
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Amounts reported for the 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	\$ 688,026	
Less accumulated depreciation	<u>(196,112)</u>	491,914

Certain liabilities are not due and payable in the current periods and therefore are not reported in the funds

Note payable	<u>(191,094)</u>
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Net assets of governmental activities	<u><u>\$ 338,255</u></u>
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CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGE IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>
REVENUE	
Captured property taxes	\$ 93,283
Charges for services	14,803
Interest	460
Rents	6,417
Other	<u>4,323</u>
Total revenues	119,286
EXPENDITURES	
Economic development	80,830
Debt service - principal	16,482
Debt service - interest	<u>9,501</u>
Total expenditures	106,813
EXCESS OF REVENUE OVER EXPENDITURES	12,473
FUND BALANCE - BEGINNING OF YEAR	<u>24,962</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 37,435</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF
 THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

Net change in fund balance - governmental fund	\$ 12,473
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Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital outlays as expenditures.
 However, in the statement of activities, the cost of those
 assets is depreciated over their estimated useful lives.

Expenditures for capital assets	-
Depreciated expense	(39,128)

Repayment of loan principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of assets.

Principal payments on debt obligations	<u>16,482</u>
Change in net assets of governmental activities	<u><u>\$ (10,173)</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2010

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 266,576
Due from other governmental units	<u>103,579</u>
Total assets	<u>\$ 370,155</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 102,532
Fund Balance	
Unreserved, undesignated	<u>267,623</u>
Total Liabilities and Fund Balance	<u>\$ 370,155</u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS

Total fund balance - governmental fund	\$ 267,623
Amounts reported for the governmental activities in the statement of net assets are different because:	
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	<u>(608,382)</u>
Net assets of governmental activities	<u>\$ (340,759)</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>
REVENUE	
Federal grant	\$ 16,900
State loan proceeds	<u>558,382</u>
Total revenues	575,282
EXPENDITURES	
Community and economic development	<u>354,739</u>
EXCESS OF REVENUE OVER EXPENDITURES	220,543
FUND BALANCE - BEGINNING OF YEAR	<u>47,080</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 267,623</u></u>

RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE
 OF THE GOVERNMENTAL FUND TO THE STATEMENT
 OF ACTIVITIES

Net change in fund balance - governmental fund	\$ 220,543
Amounts reported for governmental activities in the statement of activities are different because:	
Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets.	<u>(558,382)</u>
Change in net assets of governmental activities	<u><u>\$ (337,839)</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2010

	<u>General</u>
ASSETS	
Property taxes receivable	\$ <u>102</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 102
Fund Balance	
Unreserved, undesignated	<u>-</u>
Total Liabilities and Fund Balance	\$ <u>102</u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS

Total fund balance - governmental fund	\$ -
Amounts reported for the governmental activities in the statement of net assets are different because:	
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	<u>(177,776)</u>
Net assets of governmental activities	\$ <u>(177,776)</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>
REVENUE	
Capital property taxes	\$ 22,224
EXPENDITURES	
Debt service-principal	<u>22,224</u>
EXCESS OF REVENUE OVER EXPENDITURES	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>

RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE
 GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - governmental fund	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>22,224</u>
Change in net assets of governmental activities	<u><u>\$ 22,224</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2010

	<u>General</u>
ASSETS	\$ <u>-</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
Fund Balance	
Unreserved, undesignated	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>-</u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS

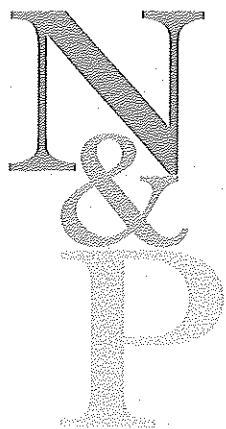
Total fund balance - governmental fund	\$ -
Amounts reported for the governmental activities in the statement of net assets are different because:	
Certain assets are not due and collectible in the current period and therefore are not reported in the funds.	
Lease receivable	10,195,000
Certain assets are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	<u>(10,195,000)</u>
Net assets of governmental activities	\$ <u>-</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>
REVENUE	
Lease income	\$ 645,122
Other	<u>725</u>
Total Revenues	645,847
EXPENDITURES	
Debt service - principal	180,000
Debt service - interest	465,122
Other	<u>725</u>
Total Expenditures	<u>645,847</u>
EXCESS OF REVENUE OVER EXPENDITURES	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>

RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE
 GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - governmental fund	\$ -
Collection of lease receivable is a revenue in the governmental funds, but the collection reduces long-term receivables in the statement of net assets	(180,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>180,000</u>
Change in net assets of governmental activities	<u><u>\$ -</u></u>



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, 2010, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 30, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis.

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

Norman & Paulsen, P.C.

Certified Public Accountants

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Michael R. Wilson, CPA

Rick L. Strawser, CPA

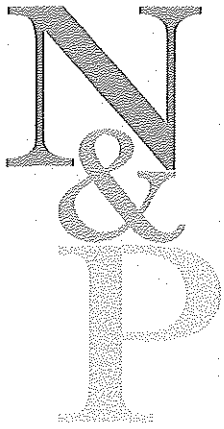
Jerrel T. Norman (1941-1982)

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.

March 30, 2011

Norman & Paulson, P.C.



AUDIT-RELATED COMMUNICATIONS

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

Norman & Paulsen, P.C.

Certified Public Accountants

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We have audited the financial statements of the City of Sturgis, Michigan for the year ended September 30, 2010, and have issued our report thereon dated March 30, 2011. 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 October 4, 2010, 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.

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

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

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 20, 2010.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA/ABV, CVA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

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 liability for uninsured risk of loss, including incurred but not reported claims, which are accounted for in certain internal service funds of the City 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 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 30, 2011.

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 E. Paulsen, P.C.

March 30, 2011