

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2012

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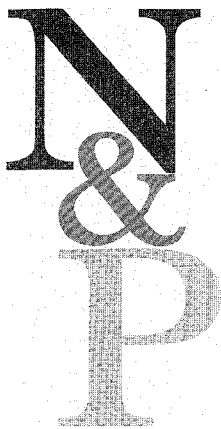
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INDEPENDENT AUDITOR'S REPORT

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, 2012, 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, 2012, 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

Jerrel T. Norman (1941-1982)

The Management's Discussion and Analysis, budgetary comparison schedules and the pension and other postemployment benefits information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sturgis basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, 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 28, 2013

Norman J. 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, 2012. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$3,493,937 during the fiscal year ended September 30, 2012, which represents a 5.8 percent increase in net assets from \$60,318,280 at the beginning of the year to \$63,812,217 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 \$2,335,491 to \$38,781,359.

The City's Governmental Funds reflected a total fund balance at September 30, 2012 of \$4,391,928, which was a decrease of \$50,321 from the prior year end.

The City's General Fund reflected a total fund balance at September 30, 2012 of \$2,789,354, which was an increase of \$29,711 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 amounted to \$910,481 which was a \$15,271 increase. This is down by \$397,480 or 30% from a 2001 high of \$1,307,961.

The Net Assets of the Pension Trust Fund increased by \$3,864,529 or 16% of beginning net assets of \$24,241,411. This was the result of a net appreciation in the fair value of investments of \$3,951,972.

The total Governmental Fund expenditures for the year ended September 30, 2012, amounted to \$9,801,557, of which \$3,928,194 (40 percent) was for public safety, \$2,402,295 (25 percent) was for public works, \$1,554,127 (16 percent) was for recreation and cultural, and \$1,507,046 (15 percent) was for general government.

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As a result, the financial statements reflect a long-term liability and related expenses of \$3,978,351 and \$393,000 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		
	2012	2011	2012	2011	
Assets	\$ 8,063	\$ 8,140	\$ 70,609	\$ 68,697	
Liabilities	3,671	3,698	18,609	20,455	
Fund Equity					
Invested in capital assets, net of related debt	-	-	26,688	24,018	
Retained Earnings					
Restricted	-	-	889	2,644	
Unreserved	-	-	24,423	21,580	
Fund Balances					
Reserved	1,207	1,253	-	-	
Unreserved	3,185	3,189	-	-	
Total Fund Equity	<u>\$ 4,392</u>	<u>\$ 4,442</u>	<u>\$ 52,000</u>	<u>\$ 48,242</u>	

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity decreased by 1.1 percent or \$50,321 from a year ago. In contrast the prior years governmental fund equity increased by 6.0 percent or \$249,570.

The City's enterprise fund equity increased by 7.8 percent or \$3,759,064 from a year ago. In contrast the prior years enterprise fund equity increased by 7.7 percent or \$3,452,164.

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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 9,865	\$ 10,130	\$ 29,315	\$ 28,419
Capital assets	<u>10,188</u>	<u>10,501</u>	<u>42,133</u>	<u>40,974</u>
Total assets	20,053	20,631	71,448	69,393
Long-term debt outstanding	1,251	1,659	14,982	16,391
Other liabilities	<u>7,994</u>	<u>7,957</u>	<u>3,461</u>	<u>3,698</u>
Total liabilities	9,245	9,616	18,443	20,089
Net assets				
Invested in capital assets, net of related debt	8,937	8,842	27,151	24,582
Restricted	1,156	1,187	889	2,644
Unrestricted	<u>714</u>	<u>986</u>	<u>24,965</u>	<u>22,078</u>
Total net assets	<u>\$ 10,807</u>	<u>\$ 11,015</u>	<u>\$ 53,005</u>	<u>\$ 49,304</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	
	2012	2011	2012	2011
Revenue				
Property taxes	\$ 3,113	\$ 3,127	\$ -	\$ -
In lieu of taxes	1,718	1,486	-	-
Special assessments	4	4	-	-
Licenses and permits	93	102	-	-
Grants	424	383	924	344
State shared revenues	1,622	1,580	-	-
Charges for services	1,233	1,143	28,316	27,714
Fines and forfeits	41	37	-	-
Interest income	368	403	124	72
Administrative reim.	966	967	-	-
Other	249	200	607	761
Debt proceeds	-	983	-	-
Transfers	(80)	(80)	80	80
Total revenue	9,751	10,338	30,051	28,971
Program expenses				
General government	1,545	1,552	-	-
Public safety	3,928	3,894	-	-
Public works	2,402	1,763	-	-
Recreation and culture	1,554	1,525	-	-
Health and welfare	55	72	-	-
Capital outlay	172	1,227	-	-
Debt service	145	55	-	-
Electric system	-	-	18,888	18,579
Sewer system	-	-	1,453	1,445
Water system	-	-	718	709
Other	-	-	-	-
In lieu of taxes	-	-	1,718	1,486
Depreciation	-	-	2,966	2,823
Interest expense	-	-	549	477
Total expenses	9,801	10,088	26,292	25,519
Excess (Deficiency)	\$ (50)	\$ 250	\$ 3,759	\$ 3,452

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	
	2012	2011	2012	2011
Revenues				
Program revenues				
Charges for services	\$ 1,764	\$ 1,739	\$ 29,649	\$ 29,008
Operating grants and contributions	940	956	-	-
Capital grants and contributions	318	203	924	501
General revenues				
Property taxes	3,113	3,127	-	-
State shared revenues	910	895	-	-
Unrestricted investment earnings	377	406	128	74
Miscellaneous	842	597	297	295
Payments in lieu of taxes	1,719	1,486		-
Transfers	(80)	(80)	80	80
Total revenues	9,903	9,329	31,078	29,958
Expenses				
General government	2,133	2,238	-	-
Public safety	4,041	4,319	-	-
Public works	2,203	2,080	-	-
Recreation and cultural	1,642	1,695	-	-
Unallocated	55	72	-	-
Interest on long-term debt	36	34	-	-
Electric system	-	-	22,358	21,782
Sewer system	-	-	2,822	2,616
Water system	-	-	1,112	1,121
Other	-	-	1,085	1,113
Total expenses	10,110	10,438	27,377	26,632
Change in net assets	<u>\$ (207)</u>	<u>\$ (1,109)</u>	<u>\$ 3,701</u>	<u>\$ 3,326</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2012, the net assets of governmental activities decreased by \$206,866 or 1.9 percent of beginning net assets. This decrease was primarily the result of a \$50,321 decrease in the City's governmental fund equity and a \$173,667 decrease in the City's internal service funds net assets.

Business-Type Activities

For the year ended September 30, 2012, the net assets of business-type activities increased by \$3,700,803 or 7.5 percent of beginning net assets. This increase was comprised of the following by specific activity:

	Increase (Decrease)	
	<u>2012</u>	<u>2011</u>
Electric system	\$ 2,335,491	\$ 2,923,349
Sewer system	730,713	416,763
Water system	691,337	108,845
Other	<u>(56,738)</u>	<u>(122,550)</u>
Total	<u>\$ 3,700,803</u>	<u>\$ 3,326,407</u>

The Electric system's increase in net assets of \$2,335,491 is down from the prior year increase of \$2,923,349 primarily due to a decrease in capital contributions of \$343,830.

The Sewer system's increase in net assets of \$730,713 is up from the prior year increase of \$416,763 primarily due to an increase in operating revenues of \$146,000 and capital contributions of \$360,497. 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 \$691,337 is up from the prior year increase of \$108,845 primarily due to an increase in operating revenues of \$147,000 and capital contributions of \$406,445. 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, 2012 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 \$157,357 in the original budget and a decrease of \$247,837 in the amended budget. Actual operating results ended up as an increase in fund balance of \$29,711.

The original budget was amended for:

Decrease in grant revenues	\$ 51,564
Increase in state shared revenue	50,481
Decrease in public safety expenditures	85,500
Decrease in capital outlay expenditures	15,000

Actual revenues ended the year \$12,931 under the amended budget or 0.2 percent.

Actual expenditures ended the year \$290,479 under the amended budget or 4.7 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, 2012, the total capital assets of the City increased by \$4,795,483. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$1,368,000, which was primarily funded with remaining prior year debt proceeds.

The Sewer Utility System capital assets increased by \$1,394,000, which was \$517,294 financed with capital grant contributions and the balance financed internally.

The Water Utility System capital assets increased by \$1,299,000, which was \$406,445 financed with capital grant contributions and the balance financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$137,000 which was financed with built up reserves.

Governmental capital assets increased by \$172,000 for equipment which was funded from built up fund balances and \$419,000 for street construction which was \$392,000 funded by a state grant and the balance funded internally.

During the year ended September 30, 2012, the total debt obligations of the City decreased by principal payments of \$1,817,388. Total debt obligations at September 30, 2012 amounted to \$16,233,405.

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 \$25,800,000 which is significantly in excess of the City's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

The City of Sturgis serves approximately 11,000 residents and is located just north of the Michigan-Indiana border in St. Joseph County. The local economic base includes mid-sized manufacturers, a hospital, schools, and service providers. The City collaborates with other governmental agencies including the County, area townships and Indiana local governments to encourage regional economic development. The City has received recognition for economic development from multiple sources including the University of Michigan eCities program and Site Selection Magazine.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

During the ensuing fiscal year, the City will be investing in several capital projects. The first project, funded primarily by the State Clean Water Revolving Fund, will include improvements to the wastewater treatment plant and system. Other major capital projects include construction of an electrical line extension and new substation to service customers and provide for future service capacity. Improving City streets remains a high priority for the Commission and several projects are budgeted which are funded by a variety of resources including reserves and available State grants.

The City Commission has adopted a conservative budget for 2012-2013. This includes a decrease in fund balance for all governmental funds of \$472,925 or 17.95 percent of total beginning fund balances and maintenance of the City's current below-maximum tax levy. The decrease in fund balance is primarily due to reserve funds budgeted for street repairs and required matching for grant funds for these projects. 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 a decrease in property tax revenue of approximately five percent due to falling property valuations. The property tax base consists of 40% residential, 43% industrial and 17% commercial. State revenue sharing is projected to be up slightly from the previous year. The PILOT, which is paid to the General Fund from the utility funds, is up over 20%, due to increases in utility revenue in 2011 combined with a change in the percentage paid from the Electric Fund from 6.5% to 7.5 percent. Investment earnings are expected to be down slightly due to continued low interest rate of return.

The 2012-2013 budget year includes maintaining total employee costs near current levels. To accomplish this goal, the City has budgeted for increases in employee contributions for health insurance and pension as well as leaving vacant positions unfilled. The Governor's EVIP as well as recent legislation include criteria for employee compensation and contribution levels for health insurance. The City continues to evaluate employee compensation compared to meeting these targets.

Because of the difficult economic climate during the last several years, the City has continued to address a challenging budget that includes 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 the level of 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 assessment of 11.8894 mils on the taxable value of each property. 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 2013, the inflation rate multiplier which is applied to taxable values is 2.7% compared to 3.2% in 2012. Further decreases are anticipated in 2013 due to a stagnant real estate market. In May of 2013, the City is asking voters to consider a three mil dedicated street millage to provide for ten years of funding for street improvements.

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. Due to the growing need for street infrastructure improvements beyond currently available resources, the City continues to assess alternative funding methods and investigate the availability of grants for street improvements in an effort 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 operating 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, 2012

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and investments	\$ 8,037,293	\$ 22,980,844	\$31,018,137	\$ 108,437
Receivables, net	254,865	3,388,657	3,643,522	224,651
Receivables, long-term portion	617,435	1,104,753	1,722,188	9,585,000
Internal balances	-	-	-	-
Inventories, prepaid items and other assets	54,445	950,483	1,004,928	-
Restricted assets	900,481	889,389	1,789,870	-
Capital assets - net	<u>10,188,265</u>	<u>42,133,380</u>	<u>52,321,645</u>	<u>413,658</u>
Total assets	20,052,784	71,447,506	91,500,290	10,331,746
LIABILITIES				
Accounts payable	641,834	2,242,707	2,884,541	3,047
Accrued and other liabilities	140,566	596,474	737,040	1,150
Deferred revenue	2,614,690	-	2,614,690	42,469
Debt obligations:				
Due within one year	94,853	1,439,111	1,533,964	252,101
Due in more than one year	1,156,126	13,543,315	14,699,441	10,186,275
Compensated absences	619,046	228,000	847,046	-
Other postemployment benefits	<u>3,978,351</u>	<u>393,000</u>	<u>4,371,351</u>	<u>-</u>
Total liabilities	<u>9,245,466</u>	<u>18,442,607</u>	<u>27,688,073</u>	<u>10,485,042</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,937,286	27,150,954	36,088,240	244,370
Restricted:				
Debt service	-	850,000	850,000	-
Endowments	900,481	-	900,481	-
Other purposes	255,431	39,389	294,820	-
Unrestricted (deficit)	<u>714,120</u>	<u>24,964,556</u>	<u>25,678,676</u>	<u>(397,666)</u>
Total net assets (deficit)	<u>\$ 10,807,318</u>	<u>\$ 53,004,899</u>	<u>\$63,812,217</u>	<u>\$ (153,296)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

<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	\$ 2,132,456	\$ 543,163	\$ 26,291	\$ -
Public safety	4,041,291	98,289	28,690	-
Public works	2,203,208	323,291	793,042	318,478
Recreation and cultural	1,642,294	799,047	92,310	-
Unallocated	54,833	-	-	-
Interest on long-term debt	36,126	-	-	-
Total governmental activities	10,110,208	1,763,790	940,333	318,478
Business-type activities:				
Electric	22,358,259	24,234,513	-	-
Sanitary sewer	2,821,872	3,022,112	-	517,294
Water	1,112,338	1,371,426	-	406,445
Other	1,084,508	1,020,996	-	-
Total business-type activities	27,376,977	29,649,047	-	923,739
Total primary government	<u>\$37,487,185</u>	<u>\$31,412,837</u>	<u>\$ 940,333</u>	<u>\$ 1,242,217</u>
Component units	<u>\$ 561,522</u>	<u>\$ 476,821</u>	<u>\$ 9,075</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Payments in lieu of taxes				
Transfers - internal				
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>
\$ (1,563,002)	\$ -	\$ (1,563,002)	\$ -
(3,914,312)	-	(3,914,312)	-
(768,397)	-	(768,397)	-
(750,937)	-	(750,937)	-
(54,833)	-	(54,833)	-
<u>(36,126)</u>	<u>-</u>	<u>(36,126)</u>	<u>-</u>
(7,087,607)	-	(7,087,607)	-
-	1,876,254	1,876,254	-
-	717,534	717,534	-
-	665,533	665,533	-
<u>-</u>	<u>(63,512)</u>	<u>(63,512)</u>	<u>-</u>
-	3,195,809	3,195,809	-
(7,087,607)	3,195,809	(3,891,798)	<u>\$ -</u>
			\$ (75,626)
3,113,079	-	3,113,079	91,374
910,481	-	910,481	-
376,772	128,248	505,020	604
842,419	296,746	1,139,165	5,120
1,717,990	-	1,717,990	-
<u>(80,000)</u>	<u>80,000</u>	<u>-</u>	<u>-</u>
<u>6,880,741</u>	<u>504,994</u>	<u>7,385,735</u>	<u>97,098</u>
(206,866)	3,700,803	3,493,937	21,472
<u>11,014,184</u>	<u>49,304,096</u>	<u>60,318,280</u>	<u>(174,768)</u>
<u>\$ 10,807,318</u>	<u>\$ 53,004,899</u>	<u>\$63,812,217</u>	<u>\$ (153,296)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 5,481,859	\$ 140,172	\$ 62,953
Investments	-	-	-
Receivables			
Accounts	45,168	2,407	-
Property taxes	11,743	-	-
Special assessments	3,844	22,912	590,679
Interest	4,965	-	-
Due from other funds	-	-	-
Due from other governmental units	7,056	88,533	32,398
Prepaid items	-	-	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,554,635</u>	<u>\$ 254,024</u>	<u>\$ 686,030</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 106,626	\$ 64,932	\$ 1,868
Due to other funds	-	-	-
Accrued expenses	118,161	3,785	2,916
Deferred revenue	<u>2,540,494</u>	<u>22,912</u>	<u>590,679</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	2,765,281	91,629	595,463
FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	162,395	90,567
Committed	-	-	-
Unassigned	<u>2,789,354</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>2,789,354</u>	<u>162,395</u>	<u>90,567</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 5,554,635</u>	<u>\$ 254,024</u>	<u>\$ 686,030</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>
\$ 238,276	\$ 76,560	\$ 417,610	\$ 6,417,430
-	-	738,731	738,731
-	-	45,194	92,769
-	-	-	11,743
-	-	-	617,435
-	-	1,055	6,020
-	-	-	-
-	-	-	127,987
-	-	14,300	14,300
-	-	36,842	36,842
<u>\$ 238,276</u>	<u>\$ 76,560</u>	<u>\$ 1,253,732</u>	<u>\$ 8,063,257</u>
\$ 84,808	\$ -	\$ 41,336	\$ 299,570
-	-	-	-
-	-	14,773	139,635
-	-	78,039	3,232,124
84,808	-	134,148	3,671,329
-	-	51,142	51,142
-	-	902,950	1,155,912
153,468	76,560	165,492	395,520
-	-	-	2,789,354
<u>153,468</u>	<u>76,560</u>	<u>1,119,584</u>	<u>4,391,928</u>
<u>\$ 238,276</u>	<u>\$ 76,560</u>	<u>\$ 1,253,732</u>	<u>\$ 8,063,257</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2012

Total governmental fund balances \$ 4,391,928

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	\$ 17,204,176	
Less accumulated depreciation	<u>(7,630,815)</u>	9,573,361

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	617,434
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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	(939,059)
Compensated absences	(619,046)
Other postemployment benefits	(3,978,351)

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

Net assets of the internal service funds	<u>1,761,051</u>
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Net assets of governmental activities	<u>\$ 10,807,318</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, 2012**

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 2,848,146	\$ 58,843	\$ 206,090
Special assessments	2,733	-	1,486
Licenses and permits	68,255	-	-
Federal grants	20,616	-	-
State grants	3,219	392,355	8,036
State shared revenue	910,481	520,634	190,495
Charges for services	133,247	-	-
Fines and forfeits	36,032	-	-
Investment income	360,462	124	201
Contributions	11,672	-	-
Payments in lieu of taxes	1,717,990	-	-
Administrative reimbursement	966,440	-	-
Other	82,894	10,822	7,860
Total revenue	<u>7,162,187</u>	<u>982,778</u>	<u>414,168</u>
EXPENDITURES			
Legislative	37,530	-	-
General government	1,209,779	-	-
Public safety	3,814,407	-	-
Public works	286,351	1,040,019	491,362
Health and welfare	54,833	-	-
Recreation and cultural	364,797	-	-
Capital outlay	142,631	-	-
Debt services	20,048	-	-
Total expenditures	<u>5,930,376</u>	<u>1,040,019</u>	<u>491,362</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,231,811	(57,241)	(77,194)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	100,572	-
Operating transfers out	<u>(1,202,100)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,202,100)</u>	<u>100,572</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	29,711	43,331	(77,194)
FUND BALANCE - BEGINNING OF YEAR	<u>2,759,643</u>	<u>119,064</u>	<u>167,761</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,789,354</u>	<u>\$ 162,395</u>	<u>\$ 90,567</u>

See accompanying notes to the financial statements

Municipal Street Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 3,113,079
-	-	-	4,219
-	-	25,409	93,664
-	-	-	20,616
-	-	-	403,610
-	-	-	1,621,610
-	-	1,099,638	1,232,885
-	-	4,855	40,887
243	67	6,734	367,831
-	-	92,310	103,982
-	-	-	1,717,990
-	-	-	966,440
-	-	42,847	144,423
<u>243</u>	<u>67</u>	<u>1,271,793</u>	<u>9,831,236</u>
-	-	-	37,530
-	-	297,267	1,507,046
-	-	113,787	3,928,194
276,926	-	307,637	2,402,295
-	-	-	54,833
-	-	1,189,330	1,554,127
-	-	29,491	172,122
-	-	125,362	145,410
<u>276,926</u>	<u>-</u>	<u>2,062,874</u>	<u>9,801,557</u>
(276,683)	67	(791,081)	29,679
388,000	5,000	790,196	1,283,768
<u>(100,572)</u>	<u>(48,000)</u>	<u>(13,096)</u>	<u>(1,363,768)</u>
<u>287,428</u>	<u>(43,000)</u>	<u>777,100</u>	<u>(80,000)</u>
10,745	(42,933)	(13,981)	(50,321)
<u>142,723</u>	<u>119,493</u>	<u>1,133,565</u>	<u>4,442,249</u>
<u>\$ 153,468</u>	<u>\$ 76,560</u>	<u>\$ 1,119,584</u>	<u>\$ 4,391,928</u>

CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds \$ (50,321)

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	591,172
Depreciation expense	(750,973)

Revenues in the statement of activities that do not provide
current resources are not reported as revenues in the
funds, but rather are deferred to subsequent fiscal years.

Decrease of special assessments	(3,778)
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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. Repayment of loan principal is an expenditure in
the governmental funds, but the repayment reduces long-
term liabilities in the statement of assets.

Proceeds from debt obligations	-
Principal payments on debt obligations	104,111

Some expenses reported in the statement of activities do
not require the use of current financial resources and
therefore are not reported as expenditures in the funds.

Decrease in the accrual for compensated absences	741
Decrease in the accrual for other postemployment benefits	17,588

Internal service funds are used by management to charge
the cost 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.

Net change from internal service funds related to governmental activities	<u>(115,406)</u>
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Change in net assets of governmental activities	<u>\$ (206,866)</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 1,049,803	\$ 529,219
Investments	19,697,969	-
Receivables		
Notes - Current portion	143,636	-
Accounts	2,365,291	350,786
Interest	98,459	-
Grant	-	147,780
Inventory	688,440	88,547
Prepaid items	-	-
Due from other funds	-	-
Advances due from other funds	<u>166,572</u>	<u>-</u>
Total current assets	24,210,170	1,116,332
NONCURRENT ASSETS		
Restricted assets	889,389	-
Notes receivable	271,940	-
Special assessments	122,598	363,981
Advances due from other funds	166,419	-
Other assets	123,328	-
Capital assets, net of depreciation	<u>21,051,484</u>	<u>16,033,819</u>
Total noncurrent assets	<u>22,625,158</u>	<u>16,397,800</u>
Total assets	46,835,328	17,514,132

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>
\$ 598,523	\$ 72,575	\$ 2,250,120	\$ 2,814,367
-	-	19,697,969	-
-	10,050	153,686	-
149,537	-	2,865,614	23,352
-	-	98,459	-
116,112	-	263,892	-
48,752	-	825,739	4,719
-	-	-	-
-	-	-	-
-	-	166,572	-
912,924	82,625	26,322,051	2,842,438
-	-	889,389	-
-	27,218	299,158	-
319,016	-	805,595	-
-	-	166,419	-
-	-	123,328	-
<u>4,918,228</u>	<u>-</u>	<u>42,003,531</u>	<u>744,754</u>
<u>5,237,244</u>	<u>27,218</u>	<u>44,287,420</u>	<u>744,754</u>
6,150,168	109,843	70,609,471	3,587,192

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS - Continued
SEPTEMBER 30, 2012**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	718,657	652,727
Accounts payable	1,459,545	333,018
Accrued expenses	793,786	167,256
Customer deposits	191,435	-
Due to other funds	-	-
Advances due to other funds	-	-
Deferred revenue	-	-
	<u>-</u>	<u>-</u>
Total current liabilities	3,163,423	1,153,001
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	4,890,546	7,597,229
Advances due to other funds	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>4,890,546</u>	<u>7,597,229</u>
Total liabilities	8,053,969	8,750,230
NET ASSETS		
Invested in capital assets, net of related debt	15,442,281	7,783,863
Restricted	889,389	-
Unrestricted	<u>22,449,689</u>	<u>980,039</u>
Total net assets	<u>\$ 38,781,359</u>	<u>\$ 8,763,902</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>
67,727	—	1,439,111	23,020
283,459	—	2,076,022	508,949
64,358	—	1,025,400	1,330
240	—	191,675	—
—	—	—	—
166,572	—	166,572	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
582,356	—	4,898,780	533,299
1,055,540	—	13,543,315	288,900
<u>166,419</u>	<u>—</u>	<u>166,419</u>	<u>—</u>
<u>1,221,959</u>	<u>—</u>	<u>13,709,734</u>	<u>288,900</u>
1,804,315	—	18,608,514	822,199
3,461,970	—	26,688,114	432,834
—	—	889,389	—
<u>883,883</u>	<u>109,843</u>	<u>24,423,454</u>	<u>2,332,159</u>
<u>\$ 4,345,853</u>	<u>\$ 109,843</u>	<u>\$ 52,000,957</u>	<u>\$ 2,764,993</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, 2012

Net assets - total enterprise funds	\$ 52,000,957
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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>1,003,942</u>
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Net assets of business-type activities	<u><u>\$ 53,004,899</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, 2012**

	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUE		
Charges for services	\$ 23,940,871	\$ 3,008,931
Interest revenue	-	-
Other	<u>293,642</u>	<u>13,181</u>
Total operating revenue	24,234,513	3,022,112
OPERATING EXPENSES		
Purchased power	14,328,696	-
Material, maintenance and other	2,403,606	1,046,354
General and administrative	2,156,279	406,497
Payments in lieu of taxes	1,467,342	173,820
Depreciation	<u>1,700,282</u>	<u>991,492</u>
Total operating expenses	<u>22,056,205</u>	<u>2,618,163</u>
OPERATING INCOME	2,178,308	403,949
NONOPERATING REVENUE (EXPENSES)		
Investment income	116,742	3,618
Interest expense	(302,054)	(203,709)
(Loss) Gain on sale of assets	-	-
Other	<u>262,495</u>	<u>9,561</u>
Total non-operating revenue (expenses)	<u>77,183</u>	<u>(190,530)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,255,491	213,419
CAPITAL CONTRIBUTIONS	-	517,294
TRANSFERS		
Transfers in	80,000	-
Transfers out	<u>-</u>	<u>-</u>
Total transfers	<u>80,000</u>	<u>-</u>
CHANGE IN NET ASSETS	2,335,491	730,713
NET ASSETS - BEGINNING OF YEAR	<u>36,445,868</u>	<u>8,033,189</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 38,781,359</u>	<u>\$ 8,763,902</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>
\$ 1,366,319	\$ -	\$ 28,316,121	\$ 2,910,091
-	1,460	1,460	-
<u>5,107</u>	<u>-</u>	<u>311,930</u>	<u>313,254</u>
1,371,426	1,460	28,629,511	3,223,345
-	-	14,328,696	-
393,870	-	3,843,830	2,642,131
324,449	-	2,887,225	529,422
76,828	-	1,717,990	-
<u>274,389</u>	<u>-</u>	<u>2,966,163</u>	<u>225,265</u>
<u>1,069,536</u>	<u>-</u>	<u>25,743,904</u>	<u>3,396,818</u>
301,890	1,460	2,885,607	(173,473)
3,430	63	123,853	13,335
(42,802)	-	(548,565)	(21,249)
-	-	-	7,720
<u>22,374</u>	<u>-</u>	<u>294,430</u>	<u>-</u>
<u>(16,998)</u>	<u>63</u>	<u>(130,282)</u>	<u>(194)</u>
284,892	1,523	2,755,325	(173,667)
406,445	-	923,739	-
-	-	80,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>80,000</u>	<u>-</u>
691,337	1,523	3,759,064	(173,667)
<u>3,654,516</u>	<u>108,320</u>	<u>48,241,893</u>	<u>2,938,660</u>
<u>\$ 4,345,853</u>	<u>\$ 109,843</u>	<u>\$ 52,000,957</u>	<u>\$ 2,764,993</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, 2012

Changes in net assets - total enterprise funds	\$ 3,759,064
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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>(58,261)</u>
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Change in net assets of business-type activities	<u><u>\$ 3,700,803</u></u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2012**

	Electric Fund	Sanitary Sewer Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 23,729,846	\$ 2,991,340
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	293,642	13,181
Payments to employees and suppliers	<u>(21,221,057)</u>	<u>(1,613,373)</u>
Net cash provided by (used for) operating activities	2,802,431	1,391,148
Cash flows from non-capital financing activities		
Contributions and other receipts	241,219	7,608
Transfers in	80,000	-
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	321,219	7,608
Cash flows from capital and related financing activities		
Principal paid on debt	(693,451)	(647,803)
Interest paid on debt	(288,849)	(201,502)
Receipts from interfund advances	166,572	-
Payments against interfund advances	-	-
Customer deposits	27,631	-
Acquisition of capital assets	(1,968,188)	(783,883)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	323,291	369,514
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(2,432,994)	(1,263,674)
Cash flows from investing activities		
Interest received on investments	91,524	3,618
Purchase of investments	(27,731,319)	-
Proceeds from maturity of investments-	23,389,280	-
Collections of loans receivable	<u>165,860</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(4,084,655)</u>	<u>3,618</u>
Net increase (decrease) in cash	(3,393,999)	138,700
Cash - beginning of year	<u>5,333,191</u>	<u>390,519</u>
Cash - ending of year	<u>\$ 1,939,192</u>	<u>\$ 529,219</u>
See accompanying notes to the financial statements		

Water Fund	Economic Development Fund	Total	Internal Service Funds
\$ 1,371,148	\$ -	\$ 28,092,334	\$ 289,856
-	-	-	-
-	10,050	10,050	-
-	-	-	2,910,091
-	1,708	1,708	-
5,107	-	311,930	-
(750,681)	-	(23,585,111)	(3,014,754)
625,574	11,758	4,830,911	185,193
20,594	-	269,421	-
-	-	80,000	-
-	-	-	-
20,594	-	349,421	-
(67,803)	-	(1,409,057)	(304,220)
(40,595)	-	(530,946)	(21,249)
-	-	166,572	-
(166,572)	-	(166,572)	-
-	-	27,631	-
(754,603)	-	(3,506,674)	(136,835)
-	-	-	7,720
290,333	-	983,138	-
-	-	-	-
(739,240)	-	(4,435,908)	(454,584)
3,430	63	98,635	13,335
-	-	(27,731,319)	-
-	-	23,389,280	-
-	-	165,860	-
3,430	63	(4,077,544)	13,335
(89,642)	11,821	(3,333,120)	(256,056)
688,165	60,754	6,472,629	3,070,423
\$ 598,523	\$ 72,575	\$ 3,139,509	\$ 2,814,367

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2012

	Electric Fund	Sanitary Sewer Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 2,178,308	\$ 403,949
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,700,282	991,492
Provision for bad debts	-	-
Provision for purchased power adjustment	(60,000)	-
(Increase) decrease in:		
Accounts receivable	(166,705)	(17,591)
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	5,459	927
Prepaid items	-	-
Due from other funds	-	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	(850,439)	(19,146)
Accrued expenses	39,846	31,517
Due to other funds	-	-
Deferred revenue	(44,320)	-
Net cash provided by (used for) operating activities	<u>\$ 2,802,431</u>	<u>\$ 1,391,148</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>
\$ 301,890	\$ 1,460	\$ 2,885,607	\$ (173,473)
274,389	—	2,966,163	225,265
—	—	—	—
—	—	(60,000)	—
4,829	—	(179,467)	(23,352)
—	10,050	10,050	—
—	248	248	—
—	—	—	—
12,660	—	19,046	(198)
—	—	—	44,754
—	—	—	—
—	—	—	—
21,636	—	(847,949)	112,343
10,170	—	81,533	(146)
—	—	—	—
—	—	(44,320)	—
<u>\$ 625,574</u>	<u>\$ 11,758</u>	<u>\$ 4,830,911</u>	<u>\$ 185,193</u>

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2012

	Pension Trust Fund	Other Postemployment Benefit Trust Fund	Agency Fund
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 29,220	\$ -	\$ 82,851
Investments at market value			
Money market funds	1,522,704	1,268,436	-
U.S. Government agencies	4,526,251	-	-
Mutual funds	4,494,526	-	-
Common and preferred stock	17,502,742	-	-
Accounts receivable	-	40,000	-
Dividends and interest receivable	<u>35,497</u>	<u>-</u>	<u>-</u>
Total assets	28,110,940	1,308,436	82,851
<u>LIABILITIES</u>			
Accounts payable	5,000	-	-
Due to other governmental units	-	-	60,426
Other liabilities	<u>-</u>	<u>-</u>	<u>22,425</u>
Total liabilities	<u>5,000</u>	<u>-</u>	<u>82,851</u>
NET ASSETS			
Held in trust for pension benefits	<u>\$ 28,105,940</u>	<u>\$ 1,308,436</u>	<u>\$ -</u>

See accompanying notes to the financial statements

CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2012

	Pension Trust Fund	Other Postemployment Benefit Trust Fund
	<u>Fund</u>	<u>Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 640,986	\$ 710,000
Employee	<u>73,602</u>	<u>-</u>
Total contributions	714,588	710,000
Investment income:		
Interest and dividends	737,030	-
Net appreciation (depreciation) in fair value of investments	3,951,972	114,155
Investment expenses	<u>(167,790)</u>	<u>-</u>
Total investment income (loss)	<u>4,521,212</u>	<u>114,155</u>
Total additions	5,235,800	824,155
DEDUCTIONS		
Benefits	1,324,131	-
Administrative expense	<u>47,140</u>	<u>-</u>
Total deductions	<u>1,371,271</u>	<u>-</u>
Net increase (decrease)	3,864,529	824,155
Net assets held in trust for pension benefits		
Beginning of year	<u>24,241,411</u>	<u>484,281</u>
End of year	<u>\$ 28,105,940</u>	<u>\$ 1,308,436</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, 2012

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 88,045	\$ -
Accounts receivable	4,651	-
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets		
Other capital assets, net of depreciation	<u>413,658</u>	<u>-</u>
 Total assets	 506,354	 -
<u>LIABILITIES</u>		
Accounts payable	3,047	-
Rental deposits	1,150	-
Deferred revenue	33,248	-
Debt Obligations:		
Due within one year	9,877	-
Due in more than one year	<u>159,411</u>	<u>340,760</u>
 Total liabilities	 206,733	 340,760
NET ASSETS		
Invested in capital assets, net of related debt	244,370	-
Unrestricted (deficit)	<u>55,251</u>	<u>(340,760)</u>
 Total net assets (deficit)	 <u>\$ 299,621</u>	 <u>\$ (340,760)</u>

See accompanying notes to the financial statements

Local Development Finance Authority	Building Authority	Combined Totals
\$ 20,392	\$ -	\$ 108,437
-	-	4,651
-	220,000	220,000
-	9,585,000	9,585,000
-	-	413,658
20,392	9,805,000	10,331,746
-	-	3,047
-	-	1,150
9,221	-	42,469
22,224	220,000	252,101
101,104	9,585,000	10,186,275
132,549	9,805,000	10,485,042
-	-	244,370
(112,157)	-	(397,666)
\$ (112,157)	\$ -	\$ (153,296)

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 109,332	\$ 25,048	\$ 9,075
Brownfield Redevelopment Authority	417	-	-
Local Development Finance Authority	-	-	-
Building Authority	<u>451,773</u>	<u>451,773</u>	<u>-</u>
Total discretely presented component units	<u>\$ 561,522</u>	<u>\$ 476,821</u>	<u>\$ 9,075</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>
\$ (75,209)	\$ -	\$ -	\$ -	\$ (75,209)
-	(417)	-	-	(417)
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(75,209)	(417)	-	-	(75,626)
58,246	-	33,128	-	91,374
176	417	11	-	604
<u>2,620</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>5,120</u>
<u>61,042</u>	<u>2,917</u>	<u>33,139</u>	<u>-</u>	<u>97,098</u>
(14,167)	2,500	33,139	-	21,472
<u>313,788</u>	<u>(343,260)</u>	<u>(145,296)</u>	<u>-</u>	<u>(174,768)</u>
<u>\$ 299,621</u>	<u>\$ (340,760)</u>	<u>\$ (112,157)</u>	<u>\$ -</u>	<u>\$ (153,296)</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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 recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

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, 2012

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.

Other Postemployment Benefit Trust Funds - The other postemployment benefit trust funds are used to account for the assets held by the City as trustee for the employee retirement health insurance 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, 2012

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 2012, 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, 2012

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, 2012, was \$10.0285 per \$1,000 of taxable valuation. The 2011 taxable value of the City was \$258,591,956.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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.

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, 2012

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.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets and Fund Equity - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Assets are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are a) not in a spendable form or b) legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purpose because of the City Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purpose determined by a formal action by City Commission ordinance or resolution. These amounts can not be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

Assigned - Amounts that are designated by the Manager for a particular purpose but are not spendable until a budget ordinance is passed by the City Commission.

Unassigned - Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

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, 2012

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	\$ 11,320,167	\$ 19,697,969	\$ 31,018,136
Restricted assets	160,887	1,628,983	1,789,870
Component Units:			
Cash and Investments	108,437	-	108,437
Fiduciary Funds:			
Cash and cash equivalents	112,071	-	112,071
Investments	<u>-</u>	<u>29,314,659</u>	<u>29,314,659</u>
Total	<u>\$ 11,701,562</u>	<u>\$ 50,641,611</u>	<u>\$ 62,343,173</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, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2012, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&P Rating</u>
		<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	
* Primary Government						
Sturgis Bank & Trust Co.						
Treasury Money Market	\$ 39,389					Not Rated
Century Bank - Northern Trust-						
Northern Inst. Govt. Portfolio	3,700,736					Not Rated
Citizens Bank - SEI Daily Income						
Treasury II Money Market	5,468					Not Rated
Citizens Bank - Mutual Fund-						
Vanguard Short-Term Fed-Adm.	227,084					Not Rated
U.S. Government Agencies	<u>17,354,275</u>	170,580	9,060,400	8,110,600	12,695	AAA-AA
Total Primary Government	<u>21,326,952</u>					
* Pension Trust Fund						
Sturgis Bank and Trust Co.						
Federated Government Obligations						
Tax MDG FD PRIN	1,522,704					Not Rated
U.S. Government Agencies	4,526,251	788,740	527,500	-	3,210,011	AAA-AA
PIMCO Fixed Income Series C Instl	2,242,246					Not Rated
PIMCO Fixed Income SHS						
Series M Instl	2,252,280					Not Rated
Common and Preferred Stocks	<u>17,502,742</u>					N/A
Total Pension Trust Fund	28,046,223					
* OPEB Trust Fund						
Municipal Employee's Retirement System of Michigan						
MERS Established Market Fund	<u>1,268,436</u>					Not Rated
Total Investments	<u>\$ 50,641,611</u>					

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, the City had \$15,980,000 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, 2012

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 65 percent special assessments, 2 percent property tax, 28 percent due from other governments, 4 percent accounts receivable, and 1 percent accrued interest. Business-type activities receivables are 59 percent due from customers, 14 percent loans, 18 percent special assessments, 7 percent due from other governments, and 2 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)	\$ -	\$2,525,985	\$2,525,985
Special assessments not yet due (General, major and local street funds)	617,434	-	617,434
Customer deposits for future services/events (general and special revenue funds)	<u>-</u>	<u>88,705</u>	<u>88,705</u>
	<u>\$ 617,434</u>	<u>\$2,614,690</u>	<u>\$3,232,124</u>

Component Units

Property taxes levied and collected for next fiscal years operation	\$ -	\$ 31,648	\$ 31,648
Grant funds collected in advance of project costs	<u>-</u>	<u>1,600</u>	<u>1,600</u>
	<u>\$ -</u>	<u>\$ 33,248</u>	<u>\$ 33,248</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2012:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Totals	<u>NONE</u>		<u>NONE</u>
<u>Advances from/to other funds</u>			
Electric	<u>332,991</u>	Water	<u>332,991</u>
Total Primary Government	<u>\$ 332,991</u>		<u>\$ 332,991</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, 2012

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2012:

Transfers Fund	Transfers Out	Fund	In
General	\$ 1,202,100	Municipal Street	\$ 388,000
		Building Department	60,000
		Housing Development	60,000
		Cemetery	165,000
		Drug Enforcement	13,000
		Recreation	85,000
		Civic Auditorium - operating	220,000
		Civic Auditorium - debt service	46,100
		Doyle Community Center	25,000
		Airport	60,000
		Electric	80,000
	<u>1,202,100</u>		<u>1,202,100</u>
Capital Projects	<u>48,000</u>	Civic Auditorium	<u>48,000</u>
Municipal Street	<u>100,572</u>	Major Street	<u>100,572</u>
Airport	<u>5,000</u>	Capital Projects	<u>5,000</u>
Cemetery Trust	<u>8,096</u>	Cemetery	<u>8,096</u>
Total Primary Government	<u>\$ 1,363,768</u>		<u>\$ 1,363,768</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, 2012

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions	Disposals	Balance September 30, 2012
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	2,164,380	419,050	-	2,583,430
Land improvements	4,216,909	-	-	4,216,909
Buildings and improvements	8,432,792	-	-	8,432,792
Machinery and equipment	1,625,915	126,205	5,897	1,746,223
Vehicles	2,547,983	50,437	22,699	2,575,721
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	19,355,029	595,692	28,596	19,922,125
Accumulated depreciation				
Infrastructure	1,496,936	228,102	-	1,725,038
Land improvements	1,499,518	207,050	-	1,706,568
Buildings and improvements	2,491,211	282,909	-	2,774,120
Machinery and equipment	1,467,981	69,420	5,897	1,531,504
Vehicles	2,097,361	121,178	22,699	2,195,840
Office furniture and equipment	<u>367,050</u>	<u>-</u>	<u>-</u>	<u>367,050</u>
Subtotal	<u>9,420,057</u>	<u>908,659</u>	<u>28,596</u>	<u>10,300,120</u>
Net capital assets being depreciated	<u>9,934,972</u>			<u>9,622,005</u>
Net capital assets	<u>\$10,501,232</u>			<u>\$10,188,265</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2011	Additions	Disposals/ Transfers	Balance Sept. 30, 2012
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in progress	<u>2,557,004</u>	<u>2,185,020</u>	<u>2,440,987</u>	<u>2,301,037</u>
Subtotal	3,134,097	2,185,020	2,440,987	2,878,130
Capital assets, being depreciated:				
Land improvements	1,474,936	-	-	1,474,936
Buildings, improvements and system	91,863,825	4,212,901	9,802	96,066,924
Machinery and equipment	1,292,063	221,242	2,528	1,510,777
Vehicles	927,347	21,616	9,728	939,235
Office furniture and equipment	<u>25,852</u>	<u>-</u>	<u>-</u>	<u>25,852</u>
Subtotal	95,584,023	4,455,759	22,058	100,017,724
Accumulated depreciation				
Land improvements	669,364	98,330	-	767,694
Buildings, improvements and system	55,796,901	2,837,505	3,512	58,630,894
Machinery and equipment	512,203	44,080	2,528	553,755
Vehicles	745,195	51,933	9,728	787,400
Office furniture and equipment	<u>20,837</u>	<u>1,894</u>	<u>-</u>	<u>22,731</u>
Subtotal	<u>57,744,500</u>	<u>3,033,742</u>	<u>15,768</u>	<u>60,762,474</u>
Net capital assets being depreciated	<u>37,839,523</u>			<u>39,255,250</u>
Net capital assets	<u>\$40,973,620</u>			<u>\$42,133,380</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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	\$ 152,367	Electric	\$ 1,739,021
Public safety	284,995	Sanitary Sewer	1,014,081
Public works	313,450	Water	<u>280,640</u>
Recreation and cultural	<u>157,847</u>		
Total	<u>\$ 908,659</u>	Total	<u>\$ 3,033,742</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2012</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	89,900	18,910	-	108,810
Buildings and improvements	<u>145,340</u>	<u>20,218</u>	<u>-</u>	<u>165,558</u>
Subtotal	<u>235,240</u>	<u>39,128</u>	<u>-</u>	<u>274,368</u>
Net capital assets being depreciated	<u>\$ 452,786</u>			<u>\$ 413,658</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, 2012

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2012:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Current Portion
Governmental Activities					
Loans payable	\$ 1,659,310	\$ -	\$ 408,331	\$ 1,250,979	\$ 94,853
Compensated absences	619,787	461,752	462,493	619,046	-
Net OPEB obligation	<u>3,995,939</u>	<u>968,771</u>	<u>986,359</u>	<u>3,978,351</u>	<u>-</u>
	6,275,036	1,430,523	1,857,183	5,848,376	94,853
Business-Type Activities					
Revenue bonds	16,330,383	-	1,386,833	14,943,550	1,416,887
Loans payable	61,100	-	22,224	38,876	22,224
Compensated absences	228,000	170,340	170,340	228,000	-
Net OPEB obligation	<u>259,000</u>	<u>505,264</u>	<u>371,264</u>	<u>393,000</u>	<u>-</u>
	<u>16,878,483</u>	<u>675,604</u>	<u>1,950,661</u>	<u>15,603,426</u>	<u>1,439,111</u>
Total Primary Government					
Long-Term Debt	<u>\$23,153,519</u>	<u>\$ 2,106,127</u>	<u>\$ 3,807,844</u>	<u>\$ 21,451,802</u>	<u>\$ 1,533,964</u>

Long-term debt payables at September 30, 2012, consisted of the following individual issues:

Governmental Activities

\$983,446 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$56,993 to \$79,343, plus interest paid semi-annually at 1.4% to 6.0% \$ 925,279

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 \$280,886 311,920

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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	13,780
Compensated absence	619,046
Net OPEB obligation	<u>3,978,351</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 5,848,376</u>

Business-Type Activities

\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 3,219,721
\$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	2,915,000
\$1,086,070 2007 State/Drinking Water Revolving Fund loan payable annually, beginning October 1, 2011 and ending October 1, 2027, ranging from \$45,000 to \$66,070, including interest paid semi-annually at 2.125%	841,070
\$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	1,685,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2012 and ending April 1, 2028, ranging from \$115,000 to \$145,000, including interest paid semi-annually at 1.625%	2,170,587
\$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	4,112,172

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6 - LONG-TERM DEBT - Continued

Note payable to Michigan Economic Development Corporation, non-interest bearing, monthly payment of \$1,852	38,876
Compensated Absences	228,000
Net OPEB Obligation	<u>393,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>15,603,426</u>
Total Primary Government Long-Term Debt	<u><u>\$ 21,451,802</u></u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2012 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 94,853	\$ 54,394	\$ 149,247
2014	82,205	51,883	134,088
2015	84,637	49,188	133,825
2016	86,909	46,373	133,282
2017	89,295	43,154	132,449
2018-2022	488,390	154,189	642,579
2023-2026	<u>324,690</u>	<u>37,407</u>	<u>362,097</u>
Total	<u>\$ 1,250,979</u>	<u>\$ 436,588</u>	<u>\$ 1,687,567</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,439,111	\$ 473,300	\$ 1,912,411
2014	1,473,539	433,187	1,906,726
2015	1,505,770	385,375	1,891,145
2016	1,549,652	334,601	1,884,253
2017	1,608,535	281,188	1,889,723
2018-2022	3,281,440	929,155	4,210,595
2023-2027	3,401,620	362,157	3,763,777
2028-2030	<u>722,759</u>	<u>22,916</u>	<u>745,675</u>
Total	<u>\$ 14,982,426</u>	<u>\$ 3,221,879</u>	<u>\$ 18,204,305</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2012</u>	Current <u>Portion</u>
Loan Payable	\$ <u>178,749</u>	\$ <u>-</u>	\$ <u>9,461</u>	\$ <u>169,288</u>	\$ <u>9,877</u>

Long-term debt payable at September 30, 2012, consisted of the following individual issue:

Note payable to Farmers State Bank in the amount
of \$180,000, monthly payment of \$1,275
including interest at 3.29%, final payment
due August 1, 2026, unsecured \$ 169,288

Prepayment Penalty - the loan agreement contains the following prepayment penalty clause: prepayment penalty of 5% on the current balance if payoff is within the first year; second year will require a 4% penalty; third year will require a 3% penalty; fourth year will require a 2% penalty; fifth year will require a 1% penalty on current balance at time of payoff.

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2012 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 9,877	\$ 5,419	\$ 15,296
2014	10,207	5,089	15,296
2015	10,548	4,748	15,296
2016	10,900	4,396	15,296
2017	11,264	4,032	15,296
2018-2022	62,223	14,257	76,480
2023-2026	<u>54,269</u>	<u>4,447</u>	<u>58,716</u>
Total	<u>\$ 169,288</u>	<u>\$ 42,388</u>	<u>\$ 211,676</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2012</u>	Current <u>Portion</u>
Loan Payable	\$ 608,382	\$ -	\$ 267,622	\$ 340,760	\$ -

Long-term debt payable at September 30, 2012, 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 \$ 340,760

Local Development Finance Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2012:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2012</u>	Current <u>Portion</u>
Loan Payable	\$ 145,552	\$ -	\$ 22,224	\$ 123,328	\$ 22,224

Long-term debt payable at September 30, 2012, consisted of the following individual issue:

Note payable to City of Sturgis Electric Fund, no specific repayment terms \$ 123,328

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Current Portion
Revenue					
Bonds	<u>\$10,005,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 9,805,000</u>	<u>\$ 220,000</u>

Long-term debt payable at September 30, 2012, 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% \$8,940,000

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% 865,000

Total revenue bonds \$9,805,000

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2012 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 220,000	\$ 443,447	\$ 663,447
2014	230,000	435,072	665,072
2015	245,000	425,810	670,810
2016	260,000	410,716	670,716
2017	280,000	394,846	674,846
2018-2022	1,670,000	1,814,270	3,484,270
2023-2027	2,180,000	1,400,700	3,580,700
2028-2032	3,090,000	818,920	3,908,920
2033-2035	<u>1,630,000</u>	<u>183,616</u>	<u>1,813,616</u>
Total	<u>\$ 9,805,000</u>	<u>\$ 6,327,397</u>	<u>\$ 16,132,397</u>

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2012, 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	\$ 116,709
Payable in semi-annual installments of \$70,891 including interest at 3.695%, final payment due August 1, 2014	<u>216,282</u>
Total Advances Due to Other Funds	<u>\$ 332,991</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 - NOTES RECEIVABLE

At September 30, 2012, 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, 2013	<u>\$ 37,268</u>

At September 30, 2012, the Electric Fund reflected the following notes receivable:

Note receivable from Sturgis Hospital, Inc.	
collectible in monthly installments	
of \$2,247, plus interest at 6%, due	
in full September 30, 2023	\$ 298,910

Note receivable from Cobalt Holdings, LLC	
collectible in two equal installments of	
\$116,666.50 including interest at 6%, due	
December 1, 2012, secured by real estate	
mortgage	<u>116,666</u>

Total notes receivable	<u>\$ 415,576</u>
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NOTE 9 - LEASE RECEIVABLE

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2012, 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	<u>\$ 9,805,000</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, a total of \$84,410 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, 2012, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	69,671
Claim payments	<u>(69,671)</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 \$416,980 in 2012 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2012, was as follows:

Claims liability October 1	\$ 315,000
Current year claims and changes in estimates	416,980
Claim payments	<u>(416,980)</u>
Claims liability September 30	<u>\$ 315,000</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 2012, the City contributed \$108,670 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 1,950 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, 2011, the date of the most recent actuarial valuation, membership consisted of 90 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 88 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, 2012

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, 2012, the City's annual pension cost of \$640,986 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, 2011, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.0 to 14.0 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.0%. 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%	-
2011	750,122	100%	-
2012	640,986	100%	-

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2011)

Eligibility	Amount
REGULAR RETIREMENT (no reduction factor for age)	
General and Electrical Union: Any age with 25 years of service	Total service multiplied by: 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. Electrical - 2.0% of FAC
General and Electrical: Age 60 with 10 year of service or 65 with 5 years of service.	
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): 5 years of service.	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, 2012

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.
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DUTY DEATH BEFORE RETIREMENT

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

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

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

General (hired on or after March 1, 2008), Electric (hired on or after March 1, 2008), Police (hired on or after October 1, 2008) and Fire	General: 1.8% 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%
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012

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>2011</u>	<u>2010</u>	<u>2009</u>
Annual Pension Cost (APC)	\$ 709,230	\$ 570,347	\$ 1,513,384
Percentage of APC contributed	99%	107%	103%
Actuarial value of assets	26,883,866	25,937,435	24,816,540
Actuarial accrued liability (entry age)	27,210,414	25,550,487	24,881,869
(Under) Overfunded actuarial accrued liability	(326,548)	386,948	(65,329)
Funded ratio	98.8%	101.5%	99.7%
Covered payroll	4,872,540	4,761,349	4,973,462
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	6.7%	8.1%	(1.3)%

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

Actuarial cost method - individual entry age normal cost

Amortization method - level percent of payroll, open

Amortization period - 15 years

Asset valuation method - market value with 5 year smoothing

Principal actuarial assumptions (last revised for the 12/31/11 valuation):

- Net investment return* - 7.0%
- Projected salary increases* - 4.0% to 14.0%
- Cost of living adjustments - none

* includes pay inflation at 4.0%

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 \$3,978,351 and \$393,000 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, 88 retirees are eligible for health care benefits of which 68 are enrolled.

Funding Policy

The Plan is financed on a pay-as-you-go basis. Post-employment health care 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 2012 the City contributed \$1,243,468 to the Plan of which \$533,468 was used to pay benefits and \$710,000 was held in a trust fund. Transfers to the Employee Benefits Fund in excess of the actual pay-as-you-go costs are held in trust, so they do reduce the City's net-OPEB obligation.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,474,035
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	1,474,035
Increase in assets held in trust fund	(114,155)
Contributions made	<u>(1,243,468)</u>
Increase in net OPEB obligation	116,412
Net OPEB obligation - beginning of year	<u>4,254,939</u>
Net OPEB obligation - end of year	<u><u>\$ 4,371,351</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, 2011, 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	1,474,072	35.1%	1,808,353
9/30/10	2,048,963	27.5%	3,293,917
9/30/11	1,999,632	51.9%	4,254,939
9/30/12	1,474,035	84.4%	4,371,351

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 three preceding years.

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Plan was partially funded. The actuarial accrued liability for benefits equaled \$16,780,322, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,166,279. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$4,872,540, and the ratio of the UAAL to the covered payroll equaled 332%.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 health care 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 in increasing or decreasing over time relative to the actuarial accrued liability for benefits. 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, 2011, 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 health care and prescription drug cost trend rates of 10% and 10%, respectively, initially, reduced by decrements to an ultimate rate of 5% for both health care 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, 2012

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, 2012, the City incurred purchased power cost under this agreement of \$14,219,730 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$299,000 for future true-up cost charges.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 16 - CONSTRUCTION COMMITMENTS

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, 2012, \$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, 2012, \$1,000,000 has been drawn on the grant and \$608,382 has been drawn on the loan and \$267,622 has been paid against 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, 2012, 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, 2012

NOTE 18 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority and the Local Development Finance Authority component units had deficits in net assets at September 30, 2012, of \$340,760 and \$112,157, 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.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,887,160	\$2,887,160	\$2,848,146	\$ (39,014)
Special assessments	5,000	5,000	2,733	(2,267)
Licenses and permits	55,750	55,750	68,255	12,505
Federal grants	94,560	42,996	20,616	(22,380)
State grants	3,400	4,000	3,219	(781)
State shared revenue	860,000	910,481	910,481	-
Charges for services	127,000	127,000	133,247	6,247
Fines and forfeits	32,000	32,000	36,032	4,032
Investment income	370,000	370,000	360,462	(9,538)
Payments in lieu of taxes	1,717,990	1,717,990	1,717,990	-
Administrative reimbursement	966,440	966,440	966,440	-
Other	<u>52,750</u>	<u>56,301</u>	<u>94,566</u>	<u>38,265</u>
Total revenue	7,172,050	7,175,118	7,162,187	(12,931)
EXPENDITURES				
Legislative	41,530	41,530	37,530	4,000
General government	1,269,150	1,251,150	1,209,779	41,371
Public safety	4,077,119	3,991,619	3,814,407	177,212
Public works	333,952	323,952	286,351	37,601
Health and welfare	80,940	80,940	54,833	26,107
Recreation and cultural	339,396	364,896	364,797	99
Capital outlay	161,720	146,720	142,631	4,089
Debt services	<u>16,500</u>	<u>20,048</u>	<u>20,048</u>	<u>-</u>
Total expenditures	<u>6,320,307</u>	<u>6,220,855</u>	<u>5,930,376</u>	<u>290,479</u>
EXCESS OF REVENUE OVER EXPENDITURES				
	851,743	954,263	1,231,811	277,548
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,009,100)</u>	<u>(1,202,100)</u>	<u>(1,202,100)</u>	<u>-</u>
Total other financing sources (uses)	(1,009,100)	(1,202,100)	(1,202,100)	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				
	(157,357)	(247,837)	29,711	277,548
FUND BALANCE - BEGINNING OF YEAR				
	<u>2,759,643</u>	<u>2,759,643</u>	<u>2,759,643</u>	<u>-</u>
FUND BALANCE - END OF YEAR				
	<u>\$ 2,602,286</u>	<u>\$2,511,806</u>	<u>\$2,789,354</u>	<u>\$ 277,548</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 60,000	\$ 40,000	\$ 58,843	\$ 18,843
State grants	61,000	393,415	392,355	(1,060)
State shared revenue	490,000	520,000	520,634	634
Investment income	-	-	124	124
Other	<u>-</u>	<u>-</u>	<u>10,822</u>	<u>10,822</u>
Total revenue	611,000	953,415	982,778	29,363
EXPENDITURES				
Public works	<u>627,873</u>	<u>1,076,563</u>	<u>1,040,019</u>	<u>36,544</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(16,873)	(123,148)	(57,241)	65,907
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>106,500</u>	<u>100,572</u>	<u>(5,928)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(16,873)	(16,648)	43,331	59,979
FUND BALANCE - BEGINNING OF YEAR	<u>119,064</u>	<u>119,064</u>	<u>119,064</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 102,191</u>	<u>\$ 102,416</u>	<u>\$ 162,395</u>	<u>\$ 59,979</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 225,000	\$ 225,000	\$ 206,090	\$ (18,910)
Special assessments	-	-	1,486	1,486
State grants	8,000	8,000	8,036	36
State shared revenue	183,000	183,000	190,495	7,495
Investment income	700	700	201	(499)
Other	<u>15,800</u>	<u>15,800</u>	<u>7,860</u>	<u>(7,940)</u>
Total revenue	432,500	432,500	414,168	(18,332)
EXPENDITURES				
Public works	<u>482,153</u>	<u>482,153</u>	<u>491,362</u>	<u>(9,209)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(49,653)	(49,653)	(77,194)	(27,541)
FUND BALANCE - BEGINNING OF YEAR	<u>167,761</u>	<u>167,761</u>	<u>167,761</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 118,108</u>	<u>\$ 118,108</u>	<u>\$ 90,567</u>	<u>\$ (27,541)</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ -	\$ -	\$ 243	\$ 243
EXPENDITURES				
Public works	<u>284,669</u>	<u>414,448</u>	<u>276,926</u>	<u>137,522</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(284,669)	(414,448)	(276,683)	137,765
OTHER FINANCING SOURCES (USES)				
Operating transfers in	288,000	388,000	388,000	-
Operating transfers out	<u> -</u>	<u>(106,500)</u>	<u>(100,572)</u>	<u>5,928</u>
Total other financing sources (uses)	<u>288,000</u>	<u>281,500</u>	<u>287,428</u>	<u>5,928</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	3,331	(132,948)	10,745	143,693
FUND BALANCE - BEGINNING OF YEAR	<u>142,723</u>	<u>142,723</u>	<u>142,723</u>	<u> -</u>
FUND BALANCE - END OF YEAR	<u>\$ 146,054</u>	<u>\$ 9,775</u>	<u>\$ 153,468</u>	<u>\$ 143,693</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ 500	\$ 500	\$ 67	\$ 433
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,000	5,000	5,000	-
Operating transfers out	<u>(48,000)</u>	<u>(48,000)</u>	<u>(48,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(43,000)</u>	<u>(43,000)</u>	<u>(43,000)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(42,500)	(42,500)	(42,933)	433
FUND BALANCE - BEGINNING OF YEAR	<u>119,493</u>	<u>119,493</u>	<u>119,493</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 76,993</u>	<u>\$ 76,993</u>	<u>\$ 76,560</u>	<u>\$ 433</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 Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
12/31/10	25,937	25,550	(387)	101.5%	4,761	-8.1%
12/31/11*	26,884	27,210	327	98.8%	4,872	6.7%

* 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

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2010	570,347	107.1%
2011	709,230	98.9%

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 61, 62, 63, 64, 65 and 66.

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>UAAAL 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%
12/31/11	614,043	16,780	16,166	3.7%	4,873	332%

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, 2012

	Special Revenue Funds	Permanent Funds Cemetery Trust Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 256,723	\$ 160,887	\$ 417,610
Investments	-	738,731	738,731
Receivables			
Accounts	45,194	-	45,194
Interest	-	1,055	1,055
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepaid items	14,300	-	14,300
Inventory	<u>36,842</u>	<u>-</u>	<u>36,842</u>
Total assets	<u>\$ 353,059</u>	<u>\$ 900,673</u>	<u>\$ 1,253,732</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 41,144	\$ 192	\$ 41,336
Due to other funds	-	-	-
Accrued expenses	14,773	-	14,773
Deferred revenue	<u>78,039</u>	<u>-</u>	<u>78,039</u>
Total liabilities	133,956	192	134,148
Fund Balance			
Nonspendable	51,142	-	51,142
Restricted	2,469	900,481	902,950
Committed	<u>165,492</u>	<u>-</u>	<u>165,492</u>
Total fund balance	<u>219,103</u>	<u>900,481</u>	<u>1,119,584</u>
Total liabilities and fund balance	<u>\$ 353,059</u>	<u>\$ 900,673</u>	<u>\$ 1,253,732</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Funds	Permanent Funds Cemetery Trust Fund	Total Non-Major Governmental Funds
Revenue			
License and permits	\$ 25,409	\$ -	\$ 25,409
State grants	-	-	-
Charges for services	1,096,374	3,264	1,099,638
Fines and forfeits	4,855	-	4,855
Investment income	-	6,734	6,734
Contributions	92,310	-	92,310
Other	<u>42,847</u>	<u>-</u>	<u>42,847</u>
Total revenue	1,261,795	9,998	1,271,793
Expenditures			
General government	297,267	-	297,267
Public safety	113,787	-	113,787
Public works	307,637	-	307,637
Recreation and cultural	1,189,330	-	1,189,330
Capital outlay	29,491	-	29,491
Debt service	<u>125,362</u>	<u>-</u>	<u>125,362</u>
Total expenditures	<u>2,062,874</u>	<u>-</u>	<u>2,062,874</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(801,079)	9,998	(791,081)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	790,196	-	790,196
Operating transfers out	<u>(5,000)</u>	<u>(8,096)</u>	<u>(13,096)</u>
Total other financing sources (uses)	<u>785,196</u>	<u>(8,096)</u>	<u>777,100</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(15,883)	1,902	(13,981)
FUND BALANCE - BEGINNING OF YEAR	<u>234,986</u>	<u>898,579</u>	<u>1,133,565</u>
FUND BALANCE - END OF YEAR	<u>\$ 219,103</u>	<u>\$ 900,481</u>	<u>\$ 1,119,584</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 11,186	\$ 29,344	\$ 8,265	\$ 3,365
Accounts receivables	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 11,186</u>	<u>\$ 29,344</u>	<u>\$ 8,265</u>	<u>\$ 3,365</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 99	\$ 3,767	\$ 5,422	\$ 742
Due to other funds	-	-	-	-
Accrued expenses	1,003	258	2,843	154
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	1,102	4,025	8,265	896
Fund Balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	2,469
Committed	<u>10,084</u>	<u>25,319</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>10,084</u>	<u>25,319</u>	<u>-</u>	<u>2,469</u>
Total liabilities and fund balance	<u>\$ 11,186</u>	<u>\$ 29,344</u>	<u>\$ 8,265</u>	<u>\$ 3,365</u>

<u>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>
\$ 14,457	\$ 51,947	\$ 45,357	\$ 17,906	\$ 74,896	\$ 256,723
3,092	15,468	10,600	129	15,905	45,194
-	-	-	-	-	-
-	-	-	-	-	-
-	-	14,300	-	-	14,300
-	23,452	-	-	13,390	36,842
<u>\$ 17,549</u>	<u>\$ 90,867</u>	<u>\$ 70,257</u>	<u>\$ 18,035</u>	<u>\$ 104,191</u>	<u>\$ 353,059</u>
\$ 1,151	\$ 10,301	\$ 8,246	\$ 305	\$ 11,111	\$ 41,144
-	-	-	-	-	-
1,482	5,663	447	2,748	175	14,773
-	40,879	23,235	13,925	-	78,039
2,633	56,843	31,928	16,978	11,286	133,956
-	23,452	14,300	-	13,390	51,142
-	-	-	-	-	2,469
14,916	10,572	24,029	1,057	79,515	165,492
14,916	34,024	38,329	1,057	92,905	219,103
<u>\$ 17,549</u>	<u>\$ 90,867</u>	<u>\$ 70,257</u>	<u>\$ 18,035</u>	<u>\$ 104,191</u>	<u>\$ 353,059</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2012

	Building Department <u>Fund</u>	Housing Department <u>Fund</u>	Cemetery <u>Fund</u>	Drug Enforcement <u>Fund</u>
Revenue				
License and permits	\$ 25,409	\$ -	\$ -	\$ -
State grants	-	-	-	-
Charges for services	-	-	66,486	-
Fines and forfeits	-	-	-	4,855
Contributions	-	-	-	-
Other	<u>13</u>	<u>8</u>	<u>4,526</u>	<u>73</u>
Total revenue	25,422	8	71,012	4,928
Expenditures				
General government	-	47,836	249,431	-
Public safety	96,661	-	-	17,126
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>96,661</u>	<u>47,836</u>	<u>249,431</u>	<u>17,126</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(71,239)	(47,828)	(178,419)	(12,198)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	60,000	60,000	173,096	13,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>60,000</u>	<u>60,000</u>	<u>173,096</u>	<u>13,000</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(11,239)	12,172	(5,323)	802
FUND BALANCE - BEGINNING OF YEAR	<u>21,323</u>	<u>13,147</u>	<u>5,323</u>	<u>1,667</u>
FUND BALANCE - END OF YEAR	<u>\$ 10,084</u>	<u>\$ 25,319</u>	<u>\$ -</u>	<u>\$ 2,469</u>

<u>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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,409
-	-	-	-	-	-
62,260	365,167	46,175	313,561	242,725	1,096,374
-	-	-	-	-	4,855
14,532	1,249	57,492	19,037	-	92,310
<u>138</u>	<u>17,403</u>	<u>79</u>	<u>4,950</u>	<u>15,657</u>	<u>42,847</u>
76,930	383,819	103,746	337,548	258,382	1,261,795
-	-	-	-	-	297,267
-	-	-	-	-	113,787
-	-	-	-	307,637	307,637
167,579	578,514	104,349	338,888	-	1,189,330
-	6,981	-	22,510	-	29,491
<u>-</u>	<u>110,700</u>	<u>-</u>	<u>14,662</u>	<u>-</u>	<u>125,362</u>
<u>167,579</u>	<u>696,195</u>	<u>104,349</u>	<u>376,060</u>	<u>307,637</u>	<u>2,062,874</u>
(90,649)	(312,376)	(603)	(38,512)	(49,255)	(801,079)
85,000	314,100	-	25,000	60,000	790,196
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
<u>85,000</u>	<u>314,100</u>	<u>-</u>	<u>25,000</u>	<u>55,000</u>	<u>785,196</u>
(5,649)	1,724	(603)	(13,512)	5,745	(15,883)
<u>20,565</u>	<u>32,300</u>	<u>38,932</u>	<u>14,569</u>	<u>87,160</u>	<u>234,986</u>
<u>\$ 14,916</u>	<u>\$ 34,024</u>	<u>\$ 38,329</u>	<u>\$ 1,057</u>	<u>\$ 92,905</u>	<u>\$ 219,103</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 1,379,251	\$ 269,206	\$ 1,165,910	\$ 2,814,367
Receivables	-	-	23,352	23,352
Due from other funds	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>4,719</u>	<u>-</u>	<u>-</u>	<u>4,719</u>
Total current assets	1,383,970	269,206	1,189,262	2,842,438
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>744,754</u>	<u>-</u>	<u>-</u>	<u>744,754</u>
Total assets	2,128,724	269,206	1,189,262	3,587,192
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	23,020	-	-	23,020
Accounts payable	10,920	20,000	478,029	508,949
Accrued expenses	1,330	-	-	1,330
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	35,270	20,000	478,029	533,299
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>288,900</u>	<u>-</u>	<u>-</u>	<u>288,900</u>
Total liabilities	324,170	20,000	478,029	822,199
NET ASSETS				
Invested in capital assets, net of related debt	432,834	-	-	432,834
Unrestricted	<u>1,371,720</u>	<u>249,206</u>	<u>711,233</u>	<u>2,332,159</u>
Total net assets	<u>\$ 1,804,554</u>	<u>\$ 249,206</u>	<u>\$ 711,233</u>	<u>\$ 2,764,993</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2012

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 847,152	\$ 75,000	\$1,987,939	\$ 2,910,091
Other revenues	<u>1,547</u>	<u>46</u>	<u>311,661</u>	<u>313,254</u>
Total operating revenue	848,699	75,046	2,299,600	3,223,345
OPERATING EXPENSES				
Operating and administrative	475,668	14,739	39,015	529,422
Insurance premiums and claims	-	69,671	2,572,460	2,642,131
Depreciation	<u>225,265</u>	<u>-</u>	<u>-</u>	<u>225,265</u>
Total operating expenses	<u>700,933</u>	<u>84,410</u>	<u>2,611,475</u>	<u>3,396,818</u>
OPERATING INCOME (LOSS)	147,766	(9,364)	(311,875)	(173,473)
NONOPERATING REVENUE (EXPENSE)				
Investment income	9,944	563	2,828	13,335
Gain (loss) on sale of fixed assets	7,720	-	-	7,720
Interest expense	<u>(21,249)</u>	<u>-</u>	<u>-</u>	<u>(21,249)</u>
Total nonoperating revenue (expense)	<u>(3,585)</u>	<u>563</u>	<u>2,828</u>	<u>(194)</u>
CHANGE IN NET ASSETS	144,181	(8,801)	(309,047)	(173,667)
NET ASSETS - BEGINNING OF YEAR	<u>1,660,373</u>	<u>258,007</u>	<u>1,020,280</u>	<u>2,938,660</u>
NET ASSETS - END OF YEAR	<u>\$ 1,804,554</u>	<u>\$ 249,206</u>	<u>\$ 711,233</u>	<u>\$ 2,764,993</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2012

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 1,547	\$ -	\$ 288,309	\$ 289,856
Receipts for internal services provided	847,152	75,000	1,987,939	2,910,091
Payments to suppliers	(397,145)	(84,364)	(2,444,769)	(2,926,278)
Payments to employees	<u>(88,476)</u>	<u>-</u>	<u>-</u>	<u>(88,476)</u>
Net cash provided by (used for) operating activities	363,078	(9,364)	(168,521)	185,193
Cash flows from capital and related financing activities				
Acquisition of capital assets	(136,835)	-	-	(136,835)
Proceeds from sale of capital assets	7,720	-	-	7,720
Proceeds from long-term debt	-	-	-	-
Principal paid on debt	(304,220)	-	-	(304,220)
Interest paid on debt	<u>(21,249)</u>	<u>-</u>	<u>-</u>	<u>(21,249)</u>
Net cash provided by (used for) capital and related financing activities	(454,584)	-	-	(454,584)
Cash flows from investing activities				
Interest on investments	<u>9,944</u>	<u>563</u>	<u>2,828</u>	<u>13,335</u>
Net increase (decrease) in cash	(81,562)	(8,801)	(165,693)	(256,056)
Cash - Beginning of Year	<u>1,460,813</u>	<u>278,007</u>	<u>1,331,603</u>	<u>3,070,423</u>
Cash - End of Year	<u>\$ 1,379,251</u>	<u>\$ 269,206</u>	<u>\$1,165,910</u>	<u>\$ 2,814,367</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2012

	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)	\$ 147,766	\$ (9,364)	\$ (311,875)	\$ (173,473)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	225,265	-	-	225,265
(Increase) decrease in				
Receivables	-	-	(23,352)	(23,352)
Due from other funds	-	-	-	-
Prepaid items	-	-	44,754	44,754
Inventory	(198)	-	-	(198)
Increase (decrease) in				
Accounts payable	(9,609)	-	121,952	112,343
Accrued expenses	(146)	-	-	(146)
Due to other funds	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 363,078</u>	<u>\$ (9,364)</u>	<u>\$ (168,521)</u>	<u>\$ 185,193</u>

**CITY OF STURGIS
COMPONENT UNIT FUND
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
SEPTEMBER 30, 2012**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 88,045
Accounts receivable	<u>4,651</u>
Total assets	<u><u>\$ 92,696</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 3,047
Customer deposits	1,150
Deferred revenue	<u>33,248</u>
Total liabilities	37,445
Fund Balance	
Restricted	<u>55,251</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 92,696</u></u>

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS**

Total fund balance - governmental fund	\$ 55,251
--	-----------

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>(274,368)</u>	413,658

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

Note payable	<u>(169,288)</u>
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Net assets of governmental activities	<u><u>\$ 299,621</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, 2012**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 58,246
Charges for services	12,368
Interest	176
Rents	12,680
Other	<u>11,695</u>
Total revenues	95,165
EXPENDITURES	
Economic development	64,369
Debt service - principal	9,461
Debt service - interest	<u>5,835</u>
Total expenditures	<u>79,665</u>
EXCESS OF REVENUE OVER EXPENDITURES	15,500
FUND BALANCE - BEGINNING OF YEAR	<u>39,751</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 55,251</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	\$ 15,500
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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>9,461</u>
Change in net assets of governmental activities	<u><u>\$ (14,167)</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2012**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ -
Due from other governmental units	<u>-</u>
Total assets	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ -
Fund Balance	
Restricted	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ -</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 liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	<u>(340,760)</u>
Net assets of governmental activities	<u><u>\$ (340,760)</u></u>

**CITY OF STURGIS
COMPONENT UNIT FUND
BROWNFIELD REDEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2012**

	<u>General</u>
REVENUE	
Interest	\$ 417
Other	<u>2,500</u>
Total revenues	2,917
EXPENDITURES	
Debt service - principal	267,622
Debt service - interest	<u>417</u>
Total expenditures	<u>268,039</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(265,122)
FUND BALANCE - BEGINNING OF YEAR	<u>265,122</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	\$ (265,122)
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>267,622</u>
Change in net assets of governmental activities	<u><u>\$ 2,500</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ <u>20,392</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Deferred revenue	\$ 9,221
Fund Balance	
Restricted	<u>11,171</u>
 Total Liabilities and Fund Balance	 \$ <u>20,392</u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS

Total fund balance - governmental fund	\$ 11,171
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>(123,328)</u>
Net assets of governmental activities	<u>\$ (112,157)</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2012

	<u>General</u>
REVENUE	
Captured property taxes	\$ 33,128
Interest	<u>11</u>
Total revenues	33,139
EXPENDITURES	
Debt service-principal	<u>22,224</u>
EXCESS OF REVENUE OVER EXPENDITURES	10,915
FUND BALANCE - BEGINNING OF YEAR	<u>256</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 11,171</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	\$ 10,915
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>\$ 33,139</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2012

	<u>General</u>
ASSETS	\$ <u> -</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ <u> -</u>
Fund Balance	
Restricted	<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 9,805,000

Certain assets are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable (9,805,000)

Net assets of governmental activities \$ -

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2012**

	<u>General</u>
REVENUE	
Lease income	\$ 651,048
Other	<u>725</u>
Total Revenues	651,773
EXPENDITURES	
Debt service - principal	200,000
Debt service - interest	451,048
Other	<u>725</u>
Total Expenditures	<u>651,773</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	(200,000)
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>200,000</u>
Change in net assets of governmental activities	<u><u>\$ -</u></u>

CITY OF STURGIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

Federal/Pass-Through Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Federal or (Pass-Through) Grant <u>Number</u>	Amended Grant <u>Amount</u>	Expenditures and <u>Transfers</u>
<u>Department of Commerce</u>				
Direct Program				
Investments for Public works and				
Economic Development Facilities	11.300	06-01-05423	\$1,166,000	\$ 923,739
<u>Department of Justice</u>				
Passed Through Michigan Department of State Police				
Byrne JAG Program	16.738	70888-4-12-B	20,481	20,481
Bulletproof Vest Partnership Program	16.607		135	<u>135</u>
Total Department of Justice				<u>20,616</u>
Total Federal Awards				<u>\$ 944,355</u>

The accompanying notes are an integral part of this schedule.

CITY OF STURGIS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2012

I. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Sturgis, Michigan under programs of the federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Sturgis, Michigan, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Sturgis, Michigan.

II. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

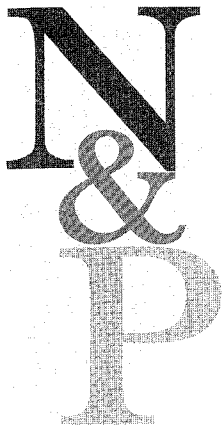
III. Reconciliation of Federal Awards

The following is a reconciliation of federal revenues as reported on the Fund Financial Statements of the City of Sturgis for the year ended September 30, 2012 and the federal expenditures per the schedule of Federal Awards.

Federal Revenues per City of Sturgis financial statements:

General Fund - federal revenue	\$ 20,616
Sanitary Sewer Fund - capital contributions	517,294
Water Fund - capital contributions	<u>406,445</u>

Federal expenditures per the schedule of Expenditures of Federal Awards	<u>\$ 944,355</u>
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT FINANCIAL
STATEMENTS PERFORMED IN OF ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the City Commission
City of Sturgis, 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, 2012, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 28, 2013. 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.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

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

Michael R. Wilson, CPA

Rick L. Strawser, CPA

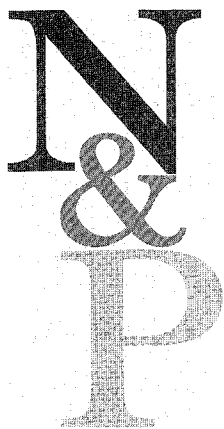
Jerrel T. Norman (1941-1982)

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 28, 2013

Norman J. Puckett, P.C.



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

To the City Commission
City of Sturgis, Michigan

Compliance - We have audited the compliance of the City of Sturgis with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. The City of Sturgis' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Sturgis' management. Our responsibility is to express an opinion on the City of Sturgis' compliance based on our audit.

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

In our opinion, the City of Sturgis complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

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)

Internal Control over Compliance - The management of the City of Sturgis is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sturgis internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City of Sturgis' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Commission, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 28, 2013

Norman S. Paulsen, P.C.

CITY OF STURGIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No material weakness or significant deficiency in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No material weakness or significant deficiency in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs:

U.S. Department of Commerce:

11.300 Investment for Public Works and Economic
Development Facilities

- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) The City of Sturgis did not qualify as a low-risk auditee.

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

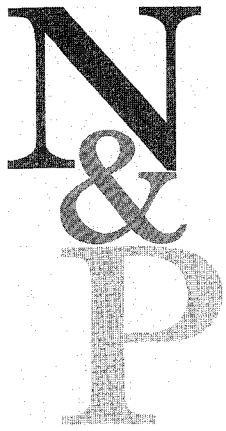
NONE

3. Findings and questioned costs for Federal awards:

NONE

4. Prior year findings:

NONE



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AUDIT-RELATED COMMUNICATIONS

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

We have audited the financial statements of the City of Sturgis, Michigan for the year ended September 30, 2012, and have issued our report thereon dated March 28, 2013. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated September 20, 2012, 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 24, 2012.

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 28, 2013.

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 J. Paulsen, P.C.

March 28, 2013