

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2013

CITY OF STURGIS

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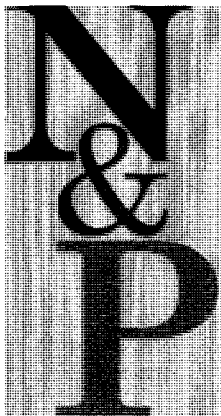
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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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 City of Sturgis, Michigan, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

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

City of Sturgis

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 City of Sturgis as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 21 to the financial statements, City of Sturgis implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and the pension and other postemployment benefits information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sturgis' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

City of Sturgis

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the City of Sturgis' internal control over financial reporting and on 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 internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sturgis' internal control over financial reporting and compliance.

March 28, 2014

Norman & 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, 2013. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$1,369,982 during the fiscal year ended September 30, 2013, which represents a 2.1 percent increase in net position from \$63,812,217 at the beginning of the year to \$65,182,199 at the end of the year. Included in the City's total net position are the Electric Utility Fund. The Electric Utility's net position decreased by \$436,256 to \$38,345,103 due to a net investment pool market value loss of \$807,981.

The City's Governmental Funds reflected a total fund balance at September 30, 2013 of \$5,151,630, which was an increase of \$759,702 from the prior year end.

The City's General Fund reflected a total fund balance at September 30, 2013 of \$2,521,134, which was a decrease of \$268,220 from the prior year end.

The City's Municipal Street Fund reflected a total fund balance at September 30, 2013 of \$536,323 which was an increase of \$382,855 from the prior year end and included an operating transfer from the General Fund of \$ 690,000.

The City's Municipal Street/Sidewalk Improvement Fund reflected a total fund balance at September 30, 2013 of \$694,568 which was also the increase from the prior year end and included voter approved property tax revenue of \$707,524.

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 \$935,468 which was a \$24,987 increase. This is down by \$372,493 or 28% from a 2001 high of \$1,307,961.

The Net Position of the Pension Trust Fund increased by \$2,745,887 or 10% of beginning net position of \$28,105,940. This was the result of a net appreciation in the fair value of investments of \$2,907,596.

The total Governmental Fund expenditures for the year ended September 30, 2013, amounted to \$9,998,324, of which \$4,050,664 (41 percent) was for public safety, \$2,321,593 (23 percent) was for public works, \$1,606,734 (16 percent) was for recreation and cultural, and \$1,602,429 (16 percent) was for general government.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net position 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 position 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		
	2013	2012	2013	2012	
Assets	\$ 8,950	\$ 8,063	\$ 69,781	\$ 70,609	
Liabilities	3,798	3,671	17,141	18,609	
Fund Equity					
Invested in capital assets, net of related debt	-	-	27,811	26,688	
Retained Earnings					
Restricted	-	-	1,114	889	
Unreserved	-	-	23,715	24,423	
Fund Balances					
Reserved	1,875	1,207	-	-	
Unreserved	3,277	3,185	-	-	
Total Fund Equity	\$ 5,152	\$ 4,392	\$ 52,640	\$ 52,000	

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 1.7 percent or \$759,702 from a year ago. In contrast the prior years governmental fund equity decreased by 1.1 percent or \$50,321.

The City's enterprise fund equity increased by 1.2 percent or \$639,652 from a year ago. In contrast the prior years enterprise fund equity increased by 7.8 percent or \$3,759,064.

The following table shows, in a condensed format, the net position 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 10,265	\$ 9,865	\$ 29,027	\$ 29,315
Capital assets	<u>10,417</u>	<u>10,188</u>	<u>41,681</u>	<u>42,133</u>
Total assets	20,682	20,053	70,708	71,448
Long-term debt outstanding	1,157	1,251	13,543	14,982
Other liabilities	<u>7,940</u>	<u>7,994</u>	<u>3,569</u>	<u>3,461</u>
Total liabilities	9,097	9,245	17,112	18,443
Net position				
Invested in capital assets, net of related debt	9,260	8,937	28,138	27,151
Restricted	1,784	1,156	1,114	889
Unrestricted	<u>541</u>	<u>714</u>	<u>24,345</u>	<u>24,965</u>
Total net position	<u>\$ 11,585</u>	<u>\$ 10,807</u>	<u>\$ 53,597</u>	<u>\$ 53,005</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net position 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	
	2013	2012	2013	2012
Revenue				
Property taxes	\$ 3,662	\$ 3,113	\$ -	\$ -
In lieu of taxes	2,120	1,718	-	-
Special assessments	3	4	-	-
Licenses and permits	105	93	-	-
Grants	472	424	154	924
State shared revenues	1,660	1,622	-	-
Charges for services	1,228	1,233	28,313	28,316
Fines and forfeits	28	41	-	-
Investment income	312	368	(797)	124
Administrative reim.	948	966	-	-
Other	300	249	585	607
Debt proceeds	-	-	-	-
Transfers	(80)	(80)	80	80
Total revenue	10,758	9,751	28,335	30,051
Program expenses				
General government	1,652	1,545	-	-
Public safety	4,051	3,928	-	-
Public works	2,322	2,402	-	-
Recreation and culture	1,607	1,554	-	-
Health and welfare	64	55	-	-
Capital outlay	192	172	-	-
Debt service	110	145	-	-
Electric system	-	-	20,045	18,888
Sewer system	-	-	1,411	1,453
Water system	-	-	658	718
Other	-	-	-	-
In lieu of taxes	-	-	2,120	1,718
Depreciation	-	-	2,983	2,966
Interest expense	-	-	478	549
Total expenses	9,998	9,801	27,695	26,292
Excess (Deficiency)	\$ 760	\$ (50)	\$ 640	\$ 3,759

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net position 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	
	2013	2012	2013	2012
Revenues				
Program revenues				
Charges for services	\$ 1,847	\$ 1,764	\$ 29,647	\$ 29,649
Operating grants and contributions	963	940	-	-
Capital grants and contributions	328	318	154	924
General revenues				
Property taxes	3,662	3,113	-	-
State shared revenues	935	910	-	-
Unrestricted investment earnings	325	377	(791)	128
Miscellaneous	753	842	285	297
Payments in lieu of taxes	2,120	1,719	-	-
Transfers	(80)	(80)	80	80
Total revenues	10,853	9,903	29,375	31,078
Expenses				
General government	2,269	2,133	-	-
Public safety	3,981	4,041	-	-
Public works	2,067	2,203	-	-
Recreation and cultural	1,646	1,642	-	-
Unallocated	64	55	-	-
Interest on long-term debt	48	36	-	-
Electric system	-	-	23,889	22,358
Sewer system	-	-	2,779	2,822
Water system	-	-	1,027	1,112
Other	-	-	1,088	1,085
Total expenses	10,075	10,110	28,783	27,377
Change in net position	\$ 778	\$ (207)	\$ 592	\$ 3,701

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2013, the net position of governmental activities increased by \$778,026 or 7.2 percent of beginning net position. This increase was primarily the result of a voter approved property tax levy which generated \$707,524 in revenue for future street improvements.

Business-Type Activities

For the year ended September 30, 2013, the net position of business-type activities increased by \$591,956 or 1.1 percent of beginning net position. This increase was comprised of the following by specific activity:

	Increase (Decrease)	
	<u>2013</u>	<u>2012</u>
Electric system	\$ (436,256)	\$ 2,335,491
Sewer system	528,771	730,713
Water system	545,869	691,337
Other	<u>(46,428)</u>	<u>(56,738)</u>
Total	<u>\$ 591,956</u>	<u>\$ 3,700,803</u>

The Electric system's decrease in net position of \$436,256 is down from the prior year increase of \$2,335,491 primarily due to a decrease in operating profit of \$1,860,000 and a net investment loss of \$807,981.

The Sewer system's increase in net position of \$528,771 is down from the prior year increase of \$730,713 primarily due to an increase in operating profit of \$213,000 and a decrease in capital contributions of \$431,015. The City continues to increase utility rates in an attempt to improve the Sewer system's net position.

The Water system's increase in net assets of \$545,869 is down from the prior year increase of \$691,337 primarily due to an increase in operating profit of \$179,000 and a decrease in capital contributions of \$338,653. The City continues to increase utility rates in an attempt to improve the Water system's net 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 17, 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, 2013 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Municipal Street/Sidewalk Improvement 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 Municipal Street/Sidewalk Improvement Fund is funded primarily by restricted property taxes. 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 \$411,350 in the original budget and a decrease of \$498,350 in the amended budget. Actual operating results ended up as a decrease in fund balance of \$268,220.

The original budget was amended for:

Decrease in grant revenues	\$	20,000
Increase in legislative expenditures		15,000
Decrease in general government expenditures		34,000
Decrease in public works expenditures		15,000
Decrease in public safety expenditures		29,000
Increase in capital outlay expenditures		49,000
Increase in operating transfers out		81,000

Actual revenues ended the year \$2,023 over the amended budget or 0.0 percent.

Actual expenditures ended the year \$228,107 under the amended budget or 3.5 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, 2013, the total capital assets of the City increased by \$3,887,174. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$1,524,000, which was primarily funded internally.

The Sewer Utility System capital assets increased by \$613,000, which was \$86,279 financed with capital grant contributions and \$391,623 financed with future revenue bond debt receipt and the balance financed internally.

The Water Utility System capital assets increased by \$354,000, which was \$67,792 financed with capital grant contributions and the balance financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$652,000 which was financed with built up reserves.

Governmental capital assets increased by \$23,000 for office equipment which was funded from built up fund balances and \$570,000 for street constuction which was \$297,600 funded by a federal grant and the balance funded internally and \$53,000 for playground improvements which was \$30,000 funded by a state grant and the balance funded internally and \$99,000 for public safety building improvements which was funded from built up fund balances.

During the year ended September 30, 2013, the total debt obligations of the City decreased by principal payments of \$1,533,213. Total debt obligations at September 30, 2013 amounted to \$14,700,192. On September 17, 2013, the City issued a \$3,800,000 Sanitary Sewer System Improvement Revenue Bond with the Michigan Finance Authority. No draw downs had been made by September 30, 2013.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Sturgis is \$24,100,000 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

The City has also embarked upon the Sturgis 2022 initiative to create a vision for the future of Sturgis that could be embraced by the whole community. After reviewing all the feedback, the Commission adopted two focus areas to help guide future improvements in Sturgis. The two focus areas identified Sturgis as a "Great Place to Do Business and a "Community of Choice". Nine specific goals were established to measure success in achieving these two focus areas over the next ten years. Future planning and budgeting will incorporate these measurable goals.

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 a new dedicated street millage, reserves and available State grants.

The City Commission has adopted a conservative budget for 2013-2014. This includes a decrease in fund balance for all governmental funds of \$465,530 or 11 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.

To address aging infrastructure and facilities, the 2013-2014 budget includes a one-time transfer of five million dollars from the Electric Fund to the Capital Reserve Fund. The purpose of this funding is to create a long-term mechanism for funding public infrastructure. A transfer from the General Fund to replenish monies in the Capital Reserve Fund is also budgeted so that funding is available over time for infrastructure and replacement and improvements.

The City is anticipating a slight decrease in property tax revenue of approximately two percent due to falling property valuations. The property tax base consists of 41 percent residential, 42 percent industrial and 17 percent 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 12 percent, due to increases in utility revenue in 2012 combined with a change in the percentage paid from the Electric Fund from 7.5 to 8.5 percent. Investment earnings are expected to remain at current levels due to continued low interest rate of return.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The 2013-2014 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 decreasing 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.

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 2014, the inflation rate multiplier which is applied to taxable values is 2.4 percent compared to 2.7 percent in 2013. Further decreases are anticipated in 2014 due to a plateaued real estate market. In May of 2013, the City voters approved a three mil dedicated millage to provide for ten years of funding for street and sidewalk improvements.

In an effort to maintain financial viability in the Water and Sewer Funds, the City adopted rate increases for the next three years. Using a cost of service model, rates are designed to meet financial targets for cash balance, adjusted operating income and debt coverage. Prior rate increases have been partially offset by decreasing utility consumption. The rates in the Water fund are designed to increase revenue 2.5 percent each year. The rates in the Sewer fund are designed to increase revenue 4.5 percent each year. Actual revenue generated from 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 POSITION
SEPTEMBER 30, 2013

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and investments	\$ 8,259,167	\$ 22,696,090	\$30,955,257	\$ 71,278
Receivables, net	310,144	3,049,243	3,359,387	269,095
Receivables, long-term portion	613,632	1,074,791	1,688,423	9,355,000
Internal balances	-	-	-	-
Inventories, prepaid items and other assets	197,885	1,204,684	1,402,569	100
Restricted assets	885,014	1,002,740	1,887,754	-
Capital assets - net	<u>10,416,567</u>	<u>41,680,879</u>	<u>52,097,446</u>	<u>374,530</u>
Total assets	20,682,409	70,708,427	91,390,836	10,070,003
LIABILITIES				
Accounts payable	738,030	2,126,293	2,864,323	2,989
Accrued and other liabilities	124,803	653,964	778,767	945
Unearned revenue	2,587,774	-	2,587,774	55,122
Debt obligations:				
Due within one year	82,269	1,473,539	1,555,808	262,431
Due in more than one year	1,074,608	12,069,776	13,144,384	9,923,921
Compensated absences	530,855	338,000	868,855	-
Other postemployment benefits	<u>3,958,726</u>	<u>450,000</u>	<u>4,408,726</u>	<u>-</u>
Total liabilities	<u>9,097,065</u>	<u>17,111,572</u>	<u>26,208,637</u>	<u>10,245,408</u>
NET POSITION				
Invested in capital assets, net of related debt	9,259,690	28,137,564	37,397,254	215,042
Restricted:				
Debt service	-	959,000	959,000	-
Streets	897,136	-	897,136	-
Cemetery trust	885,014	-	885,014	-
Other purposes	2,132	154,851	156,983	-
Unrestricted (deficit)	<u>541,372</u>	<u>24,345,440</u>	<u>24,886,812</u>	<u>(390,447)</u>
Total net position (deficit)	<u>\$ 11,585,344</u>	<u>\$ 53,596,855</u>	<u>\$65,182,199</u>	<u>\$ (175,405)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

<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	\$ 2,269,156	\$ 553,508	\$ 26,826	\$ -
Public safety	3,980,679	188,362	42,177	-
Public works	2,066,881	252,260	802,966	297,600
Recreation and cultural	1,645,784	852,906	91,066	30,000
Unallocated	64,266	-	-	-
Interest on long-term debt	48,486	-	-	-
Total governmental activities	10,075,252	1,847,036	963,035	327,600
Business-type activities:				
Electric	23,889,060	23,951,855	-	-
Sanitary sewer	2,779,282	3,208,617	-	86,279
Water	1,026,579	1,472,232	-	67,792
Other	1,088,538	1,014,557	-	-
Total business-type activities	28,783,459	29,647,261	-	154,071
Total primary government	<u>\$38,858,711</u>	<u>\$31,494,297</u>	<u>\$ 963,035</u>	<u>\$ 481,671</u>
Component units	<u>\$ 545,533</u>	<u>\$ 463,620</u>	<u>\$ 6,473</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenues				
Unrestricted investment earnings (loss)				
Miscellaneous				
Payments in lieu of taxes				
Transfers - internal				
Total general revenues and transfers				
CHANGE IN NET POSITION				
NET POSITION - BEGINNING OF YEAR				
NET POSITION - END OF YEAR				

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (1,688,822)	\$ -	\$ (1,688,822)	\$ -
(3,750,140)	-	(3,750,140)	-
(714,055)	-	(714,055)	-
(671,812)	-	(671,812)	-
(64,266)	-	(64,266)	-
(48,486)	-	(48,486)	-
(6,937,581)	-	(6,937,581)	-
-	62,795	62,795	-
-	515,614	515,614	-
-	513,445	513,445	-
-	(73,981)	(73,981)	-
-	1,017,873	1,017,873	-
(6,937,581)	1,017,873	(5,919,708)	\$ -
			\$ (75,440)
3,662,208	-	3,662,208	52,793
935,468	-	935,468	-
324,803	(790,928)	(466,125)	103
753,388	285,011	1,038,399	435
2,119,740	-	2,119,740	-
(80,000)	80,000	-	-
7,715,607	(425,917)	7,289,690	53,331
778,026	591,956	1,369,982	(22,109)
10,807,318	53,004,899	63,812,217	(153,296)
<u>\$ 11,585,344</u>	<u>\$ 53,596,855</u>	<u>\$65,182,199</u>	<u>\$ (175,405)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,751,072	\$ 57,754	\$ 40,762
Investments	3,450,000	-	-
Receivables			
Accounts	45,429	2,465	-
Property taxes	24,455	-	-
Special assessments	41	22,912	590,679
Interest	6,225	-	-
Due from other funds	-	-	-
Due from other governmental units	36,329	98,104	32,425
Prepaid items	-	-	-
Inventory	-	-	-
Total assets	<u>\$ 5,313,551</u>	<u>\$ 181,235</u>	<u>\$ 663,866</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 199,641	\$ 18,052	\$ 2,609
Due to other funds	-	-	-
Accrued expenses	97,236	4,725	3,556
Unearned revenue	<u>2,495,499</u>	<u>-</u>	<u>-</u>
Total liabilities	2,792,376	22,777	6,165
Deferred inflows of resources			
Unavailable revenue	41	22,912	590,679
FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	135,546	67,022
Committed	-	-	-
Unassigned	<u>2,521,134</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>2,521,134</u>	<u>135,546</u>	<u>67,022</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,313,551</u>	<u>\$ 181,235</u>	<u>\$ 663,866</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Municipal Street/ Sidewalk Improvement Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 738,085	\$ 699,546	\$ -	\$ 482,550	\$ 3,769,769
-	-	-	718,937	4,168,937
-	-	-	37,996	85,890
-	21,845	-	-	46,300
-	-	-	-	613,632
-	-	-	2,208	8,433
-	-	-	-	-
-	-	-	-	166,858
-	-	-	22,971	22,971
-	-	-	67,169	67,169
<u>\$ 738,085</u>	<u>\$ 721,391</u>	<u>\$ -</u>	<u>\$ 1,331,831</u>	<u>\$ 8,949,959</u>
\$ 201,762	\$ 11,361	\$ -	\$ 39,727	\$ 473,152
-	-	-	-	-
-	-	-	18,254	123,771
-	15,462	-	76,813	2,587,774
201,762	26,823	-	134,794	3,184,697
-	-	-	-	613,632
-	-	-	90,140	90,140
-	694,568	-	887,146	1,784,282
536,323	-	-	219,751	756,074
-	-	-	-	2,521,134
<u>536,323</u>	<u>694,568</u>	<u>-</u>	<u>1,197,037</u>	<u>5,151,630</u>
<u>\$ 738,085</u>	<u>\$ 721,391</u>	<u>\$ -</u>	<u>\$ 1,331,831</u>	<u>\$ 8,949,959</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2013**

Total governmental fund balances \$ 5,151,630

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

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

Governmental capital assets	\$ 17,949,327	
Less accumulated depreciation	<u>(8,431,878)</u>	9,517,449

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 unavailable revenues in the
governmental funds and, therefore, not included
in fund balance.

Unavailable special assessments	613,632
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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	(867,166)
Compensated absences	(530,855)
Other postemployment benefits	(3,958,726)

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 position of the internal service funds	<u>1,659,380</u>
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Net position of governmental activities	<u>\$ 11,585,344</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, 2013**

	General Fund	Major Street Fund	Local Street Fund
REVENUE			
Taxes	\$ 2,703,766	\$ -	\$ 250,918
Special assessments	2,680	-	-
Licenses and permits	72,943	-	-
Federal grants	35,000	-	-
State grants	37,177	69,787	8,446
State shared revenue	935,468	530,571	194,162
Charges for services	136,470	-	-
Fines and forfeits	25,212	-	-
Investment income (loss)	323,435	68	121
Contributions	3,066	-	-
Payments in lieu of taxes	2,119,740	-	-
Administrative reimbursement	948,072	-	-
Other	<u>144,159</u>	<u>8,234</u>	<u>7,804</u>
Total revenue	7,487,188	608,660	461,451
EXPENDITURES			
Legislative	50,020	-	-
General government	1,307,213	-	-
Public safety	3,935,589	-	-
Public works	312,071	635,509	484,996
Health and welfare	64,266	-	-
Recreation and cultural	343,439	-	-
Capital outlay	181,698	-	-
Debt services	<u>20,012</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,214,308</u>	<u>635,509</u>	<u>484,996</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,272,880	(26,849)	(23,545)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>(1,541,100)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,541,100)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(268,220)	(26,849)	(23,545)
FUND BALANCE - BEGINNING OF YEAR	<u>2,789,354</u>	<u>162,395</u>	<u>90,567</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,521,134</u>	<u>\$ 135,546</u>	<u>\$ 67,022</u>

See accompanying notes to the financial statements

Municipal Street Fund	Municipal Street/ Sidewalk Improvement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 707,524	\$ -	\$ -	\$ 3,662,208
-	-	-	-	2,680
-	-	-	31,799	104,742
297,600	-	-	-	332,600
-	-	-	23,760	139,170
-	-	-	-	1,660,201
-	-	-	1,091,274	1,227,744
-	-	-	2,326	27,538
817	-	126	(12,400)	312,167
-	-	-	91,066	94,132
-	-	-	-	2,119,740
-	-	-	-	948,072
-	-	-	46,835	207,032
<u>298,417</u>	<u>707,524</u>	<u>126</u>	<u>1,274,660</u>	<u>10,838,026</u>
-	-	-	-	50,020
-	-	-	295,216	1,602,429
-	-	-	115,075	4,050,664
605,562	12,956	-	270,499	2,321,593
-	-	-	-	64,266
-	-	-	1,263,295	1,606,734
-	-	-	10,738	192,436
-	-	-	90,170	110,182
<u>605,562</u>	<u>12,956</u>	<u>-</u>	<u>2,044,993</u>	<u>9,998,324</u>
(307,145)	694,568	126	(770,333)	839,702
690,000	-	-	855,062	1,545,062
<u>-</u>	<u>-</u>	<u>(76,686)</u>	<u>(7,276)</u>	<u>(1,625,062)</u>
<u>690,000</u>	<u>-</u>	<u>(76,686)</u>	<u>847,786</u>	<u>(80,000)</u>
382,855	694,568	(76,560)	77,453	759,702
<u>153,468</u>	<u>-</u>	<u>76,560</u>	<u>1,119,584</u>	<u>4,391,928</u>
<u>\$ 536,323</u>	<u>\$ 694,568</u>	<u>\$ -</u>	<u>\$ 1,197,037</u>	<u>\$ 5,151,630</u>

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 710,920	\$ 153,187
Investments	20,044,893	391,000
Receivables		
Notes - Current portion	26,970	-
Accounts	2,374,757	364,162
Interest	98,783	-
Grant	-	-
Inventory	753,899	77,421
Prepaid items	-	-
Due from other funds	-	-
Advances due from other funds	<u>162,990</u>	<u>-</u>
Total current assets	24,173,212	985,770
NONCURRENT ASSETS		
Restricted assets	893,740	109,000
Notes receivable	242,723	-
Special assessments	122,598	363,981
Advances due from other funds	-	-
Other assets	181,904	-
Capital assets, net of depreciation	<u>20,748,112</u>	<u>15,652,738</u>
Total noncurrent assets	<u>22,189,077</u>	<u>16,125,719</u>
Total assets	46,362,289	17,111,489

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>
\$ 324,476	\$ 79,153	\$ 1,267,736	\$ 895,727
300,000	-	20,735,893	1,000,000
-	5,485	32,455	-
167,808	-	2,906,727	7,398
-	-	98,783	-
8,750	-	8,750	-
57,415	-	888,735	4,029
-	-	-	237,760
-	-	-	-
-	-	162,990	-
858,449	84,638	26,102,069	2,144,914
-	-	1,002,740	-
-	26,473	269,196	-
319,016	-	805,595	-
-	-	-	-
-	-	181,904	-
<u>5,018,856</u>	<u>-</u>	<u>41,419,706</u>	<u>1,160,292</u>
<u>5,337,872</u>	<u>26,473</u>	<u>43,679,141</u>	<u>1,160,292</u>
6,196,321	111,111	69,781,210	3,305,206

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION - Continued
SEPTEMBER 30, 2013**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	733,085	672,727
Accounts payable	1,941,677	37,102
Accrued expenses	998,607	184,485
Customer deposits	186,356	-
Due to other funds	-	-
Advances due to other funds	-	-
Unearned revenue	-	-
	<u>3,859,725</u>	<u>894,314</u>
Total current liabilities		
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	4,157,461	6,924,502
Advances due to other funds	<u>-</u>	<u>-</u>
	<u>4,157,461</u>	<u>6,924,502</u>
Total noncurrent liabilities		
Total liabilities	8,017,186	7,818,816
NET POSITION		
Invested in capital assets, net of related debt	15,955,018	8,055,509
Restricted	893,740	109,000
Unrestricted	<u>21,496,345</u>	<u>1,128,164</u>
Total net position	<u>\$ 38,345,103</u>	<u>\$ 9,292,673</u>

See accompanying notes to the financial statements

Water Fund	Economic Development Fund	Total	Internal Service Funds
67,727	—	1,473,539	24,235
13,995	—	1,992,774	398,396
72,074	—	1,255,166	1,473
—	—	186,356	—
—	—	—	—
162,990	—	162,990	—
—	—	—	—
316,786	—	5,070,825	424,104
987,813	—	12,069,776	265,476
—	—	—	—
987,813	—	12,069,776	265,476
1,304,599	—	17,140,601	689,580
3,800,326	—	27,810,853	870,581
—	111,111	1,113,851	—
1,091,396	—	23,715,905	1,745,045
<u>\$ 4,891,722</u>	<u>\$ 111,111</u>	<u>\$ 52,640,609</u>	<u>\$ 2,615,626</u>

CITY OF STURGIS
RECONCILIATION OF NET POSITION ON THE STATEMENT OF
NET POSITION FOR ENTERPRISE FUNDS TO NET POSITION OF
BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Net position - total enterprise funds	\$ 52,640,609
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Amounts reported for business-type activities
in the statement of net position 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

956,246

Net position of business-type activities

\$ 53,596,855

See accompanying notes to the financial statements

**CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013**

	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUE		
Charges for services	\$ 23,672,593	\$ 3,176,018
Interest revenue	-	-
Other	<u>279,262</u>	<u>32,599</u>
Total operating revenue	23,951,855	3,208,617
OPERATING EXPENSES		
Purchased power	14,764,558	-
Material, maintenance and other	2,880,359	1,044,857
General and administrative	2,399,319	365,942
Payments in lieu of taxes	1,852,870	186,950
Depreciation	<u>1,735,998</u>	<u>994,351</u>
Total operating expenses	<u>23,633,104</u>	<u>2,592,100</u>
OPERATING INCOME (LOSS)	318,751	616,517
NONOPERATING REVENUE (EXPENSES)		
Investment income (loss)	(807,981)	6,103
Interest expense	(255,956)	(187,182)
(Loss) Gain on sale of assets	-	-
Other	<u>228,930</u>	<u>7,054</u>
Total non-operating revenue (expenses)	<u>(835,007)</u>	<u>(174,025)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(516,256)	442,492
CAPITAL CONTRIBUTIONS	-	86,279
TRANSFERS		
Transfers in	80,000	-
Transfers out	<u>-</u>	<u>-</u>
Total transfers	<u>80,000</u>	<u>-</u>
CHANGE IN NET POSITION	(436,256)	528,771
NET POSITION - BEGINNING OF YEAR	<u>38,781,359</u>	<u>8,763,902</u>
NET POSITION - ENDING OF YEAR	<u>\$ 38,345,103</u>	<u>\$ 9,292,673</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>
\$ 1,464,290	\$ -	\$ 28,312,901	\$ 2,782,877
-	1,133	1,133	-
<u>7,942</u>	<u>-</u>	<u>319,803</u>	<u>359,750</u>
1,472,232	1,133	28,633,837	3,142,627
-	-	14,764,558	-
342,927	-	4,268,143	2,539,517
315,482	-	3,080,743	592,302
79,920	-	2,119,740	-
<u>252,985</u>	<u>-</u>	<u>2,983,334</u>	<u>236,077</u>
<u>991,314</u>	<u>-</u>	<u>27,216,518</u>	<u>3,367,896</u>
480,918	1,133	1,417,319	(225,269)
5,004	135	(796,739)	18,447
(35,265)	-	(478,403)	(14,567)
-	-	-	72,022
<u>27,420</u>	<u>-</u>	<u>263,404</u>	<u>-</u>
<u>(2,841)</u>	<u>135</u>	<u>(1,011,738)</u>	<u>75,902</u>
478,077	1,268	405,581	(149,367)
67,792	-	154,071	-
-	-	80,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>80,000</u>	<u>-</u>
545,869	1,268	639,652	(149,367)
<u>4,345,853</u>	<u>109,843</u>	<u>52,000,957</u>	<u>2,764,993</u>
<u>\$ 4,891,722</u>	<u>\$ 111,111</u>	<u>\$ 52,640,609</u>	<u>\$ 2,615,626</u>

CITY OF STURGIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION OF ENTERPRISE FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

Changes in net position - total enterprise funds	\$ 639,652
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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>(47,696)</u>
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Change in net position of business-type activities	<u><u>\$ 591,956</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, 2013**

	Electric Fund	Sanitary Sewer Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 23,663,127	\$ 3,162,642
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	279,262	32,599
Payments to employees and suppliers	<u>(21,252,634)</u>	<u>(1,554,661)</u>
Net cash provided by (used for) operating activities	2,689,755	1,640,580
Cash flows from non-capital financing activities		
Contributions and other receipts	205,830	7,054
Transfers in	80,000	-
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	285,830	7,054
Cash flows from capital and related financing activities		
Principal paid on debt	(718,657)	(652,727)
Interest paid on debt	(255,834)	(187,304)
Receipts from interfund advances	170,001	-
Payments against interfund advances	-	-
Customer deposits	(5,079)	-
Acquisition of capital assets	(1,513,426)	(923,797)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	-	234,059
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(2,322,995)	(1,529,769)
Cash flows from investing activities		
Interest received on investments	44,771	6,103
Purchase of investments	(1,204,351)	(200,000)
Proceeds from maturity of investments-	-	-
Collections of loans receivable	<u>168,107</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(991,473)</u>	<u>(193,897)</u>
Net increase (decrease) in cash	(338,883)	(76,032)
Cash - beginning of year	<u>1,049,803</u>	<u>229,219</u>
Cash - ending of year	<u>\$ 710,920</u>	<u>\$ 153,187</u>
See accompanying notes to the financial statements		

Water Fund	Economic Development Fund	Total	Internal Service Funds
\$ 1,446,019	\$ -	\$ 28,271,788	\$ 379,431
-	-	-	-
-	5,310	5,310	-
-	-	-	2,782,877
-	1,133	1,133	-
7,942	-	319,803	-
(764,633)	-	(23,571,928)	(3,483,026)
689,328	6,443	5,026,106	(320,718)
18,671	-	231,555	-
-	-	80,000	-
-	-	-	-
18,671	-	311,555	-
(67,727)	-	(1,439,111)	(22,209)
(35,387)	-	(478,525)	(14,567)
-	-	170,001	-
(170,001)	-	(170,001)	-
(240)	-	(5,319)	-
(597,599)	-	(3,034,822)	(651,615)
-	-	-	72,022
183,904	-	417,963	-
-	-	-	-
(687,050)	-	(4,539,814)	(616,369)
5,004	135	56,013	18,447
-	-	(1,404,351)	-
-	-	-	-
-	-	168,107	-
5,004	135	(1,180,231)	18,447
25,953	6,578	(382,384)	(918,640)
298,523	72,575	1,650,120	1,814,367
\$ 324,476	\$ 79,153	\$ 1,267,736	\$ 895,727

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2013

	Electric Fund	Sanitary Sewer Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 318,751	\$ 616,517
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,735,998	994,351
Provision for bad debts	-	-
Provision for purchased power adjustment	13,000	-
(Increase) decrease in:		
Accounts receivable	(9,466)	(13,376)
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	(65,459)	11,126
Prepaid items	-	-
Due from other funds	-	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	482,132	14,612
Accrued expenses	214,799	17,350
Due to other funds	-	-
Unearned revenue	-	-
Net cash provided by (used for) operating activities	<u>\$ 2,689,755</u>	<u>\$ 1,640,580</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>
\$ 480,918	\$ 1,133	\$ 1,417,319	\$ (225,269)
252,985	-	2,983,334	236,077
-	-	-	-
-	-	13,000	-
(18,271)	-	(41,113)	15,954
-	5,310	5,310	-
-	-	-	-
-	-	-	-
(8,663)	-	(62,996)	690
-	-	-	(237,760)
-	-	-	-
-	-	-	-
(25,478)	-	471,266	(110,553)
7,837	-	239,986	143
-	-	-	-
-	-	-	-
<u>\$ 689,328</u>	<u>\$ 6,443</u>	<u>\$ 5,026,106</u>	<u>\$ (320,718)</u>

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2013**

	Pension Trust Fund	Other Postemployment Benefit Trust Fund	Agency Fund
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,300	\$ -	\$ 94,303
Investments at market value			
Money market funds	1,383,778	2,195,618	-
U.S. Government agencies	4,994,947	-	-
Mutual funds	4,330,583	-	-
Common and preferred stock	20,103,361	-	-
Accounts receivable	-	-	-
Dividends and interest receivable	<u>37,858</u>	<u>-</u>	<u>-</u>
Total assets	30,851,827	2,195,618	94,303
<u>LIABILITIES</u>			
Accounts payable	-	-	-
Due to other governmental units	-	-	70,034
Other liabilities	<u>-</u>	<u>-</u>	<u>24,269</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>94,303</u>
NET POSITION			
Held in trust for pension benefits and post employment benefits	<u>\$ 30,851,827</u>	<u>\$ 2,195,618</u>	<u>\$ -</u>

See accompanying notes to the financial statements

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2013**

	Pension Trust Fund	Other Postemployment Benefit Trust Fund
	<u>Fund</u>	<u>Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 632,146	\$ 700,000
Employee	<u>79,312</u>	<u>-</u>
Total contributions	711,458	700,000
Investment income:		
Interest and dividends	744,688	-
Net appreciation (depreciation) in fair value of investments	2,907,596	187,182
Investment expenses	<u>(177,368)</u>	<u>-</u>
Total investment income (loss)	<u>3,474,916</u>	<u>187,182</u>
Total additions	4,186,374	887,182
DEDUCTIONS		
Benefits	1,400,227	-
Administrative expense	<u>40,260</u>	<u>-</u>
Total deductions	<u>1,440,487</u>	<u>-</u>
Net increase (decrease)	2,745,887	887,182
Net position held in trust for pension benefits and postemployment benefits		
Beginning of year	<u>28,105,940</u>	<u>1,308,436</u>
End of year	<u>\$ 30,851,827</u>	<u>\$ 2,195,618</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 55,364	\$ -
Accounts receivable	39,095	-
Prepaid assets	100	-
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets		
Other capital assets, net of depreciation	<u>374,530</u>	<u>-</u>
 Total assets	 469,089	 -
<u>LIABILITIES</u>		
Accounts payable	2,989	-
Rental deposits	945	-
Unearned revenue	39,489	-
 Debt Obligations:		
Due within one year	10,207	-
Due in more than one year	<u>149,281</u>	<u>340,760</u>
 Total liabilities	 202,911	 340,760
 NET POSITION		
Invested in capital assets, net of related debt	215,042	-
Unrestricted (deficit)	<u>51,136</u>	<u>(340,760)</u>
 Total net position (deficit)	 <u>\$ 266,178</u>	 <u>\$ (340,760)</u>

See accompanying notes to the financial statements

Local Development Finance Authority	Building Authority	Combined Totals
\$ 15,914	\$ -	\$ 71,278
-	-	39,095
-	-	100
-	230,000	230,000
-	9,355,000	9,355,000
-	-	374,530
15,914	9,585,000	10,070,003
-	-	2,989
-	-	945
15,633	-	55,122
22,224	230,000	262,431
78,880	9,355,000	9,923,921
116,737	9,585,000	10,245,408
-	-	215,042
(100,823)	-	(390,447)
\$ (100,823)	\$ -	\$ (175,405)

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 101,361	\$ 19,448	\$ 6,473
Brownfield Redevelopment Authority	-	-	-
Local Development Finance Authority	-	-	-
Building Authority	<u>444,172</u>	<u>444,172</u>	<u>-</u>
Total discretely presented component units	<u>\$ 545,533</u>	<u>\$ 463,620</u>	<u>\$ 6,473</u>

General revenues:
Captured property taxes
Unrestricted
investment earnings
Miscellaneous

Total general revenues

Change in net position

Net position (deficit) - beginning of year

Net position (deficit) - end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Change in Net Position

<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ (75,440)	\$ -	\$ -	\$ -	\$ (75,440)
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(75,440)	-	-	-	(75,440)
41,481	-	11,312	-	52,793
81	-	22	-	103
<u>435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>435</u>
<u>41,997</u>	<u>-</u>	<u>11,334</u>	<u>-</u>	<u>53,331</u>
(33,443)	-	11,334	-	(22,109)
<u>299,621</u>	<u>(340,760)</u>	<u>(112,157)</u>	<u>-</u>	<u>(153,296)</u>
<u>\$ 266,178</u>	<u>\$ (340,760)</u>	<u>\$ (100,823)</u>	<u>\$ -</u>	<u>\$ (175,405)</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The accounting policies of the City of Sturgis conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, 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, 2013

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Government-Wide Financial Statements - The statement of net position 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 position should be reported as restricted when constraints placed on net position 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, 2013

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, 2013

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.

Municipal Street/Sidewalk Improvement Fund - To account for voter approved property tax mileage to fund improvements to streets and sidewalks 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, 2013

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, 2013

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, 2013

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, 2013

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 2013, 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, 2013

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 unearned 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, 2013, was \$10.0285 per \$1,000 of taxable valuation. The 2012 taxable value of the City was \$241,212,555.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

<u>Depreciable Life-Years</u>	
Land improvements	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

Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have items that qualify for reporting as deferred outflows of resources.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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 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 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 expensed when incurred.

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.

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from special assessment receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position 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, 2013

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	\$ 8,131,522	\$ 22,823,735	\$ 30,955,257
Restricted assets	1,887,754	-	1,887,754
Component Units:			
Cash and Investments	71,278	-	71,278
Fiduciary Funds:			
Cash and cash equivalents	95,603	-	95,603
Investments	<u>-</u>	<u>33,008,287</u>	<u>33,008,287</u>
Total	<u>\$ 10,186,157</u>	<u>\$ 55,832,022</u>	<u>\$ 66,018,179</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, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2013, the maturities and credit quality rating of debt securities are as follows:

		Investment Maturities (In Years)				
	<u>Fair Value</u>	<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	<u>S&P Rating</u>
* Primary Government						
Michigan Municipal Bonds	\$ 869,371	101,423	372,681	395,267	-	AAA-AA
Century Bank - Vanguard GNMA Fund-						
Admiral Shares	238,472					Not Rated
Citizens Bank - Goldman Financial						
Sq Trs Inst Fd	52,731					Not Rated
Citizens Bank - Vanguard Inflation-						
Protected Securities Fund	110,062					Not Rated
U.S. Government Agencies	<u>21,553,099</u>	655,061	7,321,616	13,573,024	3,398	AAA-AA
Total Primary Government	<u>22,823,735</u>					

* Pension Trust Fund

Sturgis Bank and Trust Co.

Federated Government Obligations						
Tax MDG FD PRIN	1,383,778					Not Rated
U.S. Government Agencies	4,994,946	-	746,591	1,346,526	2,901,829	AAA-AA
PIMCO Fixed Income Series C Instl	2,261,340					Not Rated
PIMCO Fixed Income SHS						
Series M Instl	2,069,244					Not Rated
Common and Preferred Stocks	<u>20,103,361</u>					N/A
Total Pension Trust Fund	30,812,669					

* OPEB Trust Fund

Municipal Employee's Retirement System of Michigan
MERS Established Market Fund 2,195,618

Not Rated

Total Investments \$ 55,832,022

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013, the City had \$7,994,153 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, 2013

NOTE 3 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE

Receivables in the governmental activities are 66 percent special assessments, 5 percent property tax, 18 percent due from other governments, 10 percent accounts receivable, and 1 percent accrued interest. Business-type activities receivables are 71 percent due from customers, 7 percent loans, 19 percent special assessments, 1 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 unavailable 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 unavailable 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 and municipal street fund) \$	-	\$2,501,162	\$2,501,162
Special assessments not yet due (General, major and local street funds)	613,632	-	613,632
Customer deposits for future services/events (general and special revenue funds)	-	86,612	86,612
	<u>\$ 613,632</u>	<u>\$ 2,587,774</u>	<u>\$3,201,406</u>

Component Units

Property taxes levied and collected for next fiscal years operation	\$ -	\$ 53,522	\$ 53,522
Grant funds collected in advance of project costs	-	1,600	1,600
	<u>\$ -</u>	<u>\$ 55,122</u>	<u>\$ 55,122</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 4 - FUND BALANCES - GOVERNMENTAL FUNDS

Fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, is as follows.

	General Fund	Other Major Funds	Nonmajor Funds	Total
Nonspendable:				
Prepaid items	\$ -	\$ -	\$ 22,971	\$ 22,971
Inventory	-	-	67,169	67,169
	<u>-</u>	<u>-</u>	<u>90,140</u>	<u>90,140</u>
Restricted:				
Streets	-	897,136	-	897,136
Cemetery trust	-	-	885,014	885,014
Drug enforcement	-	-	2,132	2,132
	<u>-</u>	<u>897,136</u>	<u>887,146</u>	<u>1,784,282</u>
Committed:				
Streets	-	536,323	-	536,323
Building Dept.	-	-	14,484	14,484
Housing Dept.	-	-	23,195	23,195
Cemetery	-	-	24,501	24,501
Recreation	-	-	15,053	15,053
Auditorium	-	-	17,322	17,322
Parking lot	-	-	38,000	38,000
Arts Council	-	-	12,210	12,210
Recreation center	-	-	2,489	2,489
Parking lot	-	-	26,905	26,905
Airport	-	-	45,592	45,592
	<u>-</u>	<u>536,323</u>	<u>219,751</u>	<u>756,074</u>
Unassigned	<u>2,521,134</u>	<u>-</u>	<u>-</u>	<u>2,521,134</u>
Total fund balances - Governmental funds	<u>\$ 2,521,134</u>	<u>\$ 1,433,459</u>	<u>\$ 1,197,037</u>	<u>\$ 5,151,630</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2013:

<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>162,990</u>	Water	<u>162,990</u>
Total Primary Government	<u>\$ 162,990</u>		<u>\$ 162,990</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, 2013

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2013:

Transfers Fund	Transfers Out	Fund	In
General	\$ 1,541,100	Municipal Street	\$ 690,000
		Building Department	65,000
		Housing Development	60,000
		Cemetery	150,000
		Drug Enforcement	20,000
		Recreation	105,000
		Civic Auditorium - operating	220,000
		Civic Auditorium - debt service	46,100
		Doyle Community Center	25,000
		Airport	80,000
		Electric	80,000
	<u>1,541,100</u>		<u>1,541,100</u>
Capital Projects	76,686	Civic Auditorium	49,781
		Doyle Community Center	26,905
	<u>76,686</u>		<u>76,686</u>
Cemetery Trust	<u>7,276</u>	Cemetery	<u>7,276</u>
Total Primary Government	<u>\$ 1,625,062</u>		<u>\$ 1,625,062</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, 2013

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2013, was as follows:

	Balance October 1, 2012	Additions	Disposals	Balance September 30, 2013
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	2,583,430	570,170	-	3,153,600
Land improvements	4,216,909	52,860	-	4,269,769
Buildings and improvements	8,432,792	99,184	-	8,531,976
Machinery and equipment	1,746,223	22,860	73,653	1,695,430
Vehicles	2,575,721	482,083	308,370	2,749,434
Office furniture and equipment	<u>367,050</u>	<u>22,937</u>	<u>-</u>	<u>389,987</u>
Subtotal	19,922,125	1,250,094	382,023	20,790,196
Accumulated depreciation				
Infrastructure	1,725,038	324,960	-	2,049,998
Land improvements	1,706,568	215,102	-	1,921,670
Buildings and improvements	2,774,120	282,909	-	3,057,029
Machinery and equipment	1,531,504	43,817	73,653	1,501,668
Vehicles	2,195,840	152,710	308,370	2,040,180
Office furniture and equipment	<u>367,050</u>	<u>2,294</u>	<u>-</u>	<u>369,344</u>
Subtotal	<u>10,300,120</u>	<u>1,021,792</u>	<u>382,023</u>	<u>10,939,889</u>
Net capital assets being depreciated	<u>9,622,005</u>			<u>9,850,307</u>
Net capital assets	<u>\$10,188,265</u>			<u>\$ 10,416,567</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 6 - CAPITAL ASSETS - Continued

	Balance October 1, 2012	Additions	Disposals/ Transfers	Balance Sept. 30, 2013
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in progress	<u>2,301,037</u>	<u>735,958</u>	<u>1,433,238</u>	<u>1,603,757</u>
Subtotal	2,878,130	735,958	1,433,238	2,180,850
Capital assets, being depreciated:				
Land improvements	1,474,936	-	-	1,474,936
Buildings, improvements and system	96,066,924	3,165,598	53,108	99,179,414
Machinery and equipment	1,510,777	28,730	21,394	1,518,113
Vehicles	939,235	140,032	89,573	989,694
Office furniture and equipment	<u>25,852</u>	<u>-</u>	<u>-</u>	<u>25,852</u>
Subtotal	100,017,724	3,334,360	164,075	103,188,009
Accumulated depreciation				
Land improvements	767,694	98,330	-	866,024
Buildings, improvements and system	58,630,894	2,862,232	-	61,493,126
Machinery and equipment	553,755	45,357	21,394	577,718
Vehicles	787,400	28,660	89,573	726,487
Office furniture and equipment	<u>22,731</u>	<u>1,894</u>	<u>-</u>	<u>24,625</u>
Subtotal	<u>60,762,474</u>	<u>3,036,473</u>	<u>110,967</u>	<u>63,687,980</u>
Net capital assets being depreciated	<u>39,255,250</u>			<u>39,500,029</u>
Net capital assets	<u>\$42,133,380</u>			<u>\$41,680,879</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 156,659	Electric	\$ 1,766,920
Public safety	292,415	Sanitary Sewer	1,012,062
Public works	410,308	Water	<u>257,491</u>
Recreation and cultural	<u>162,410</u>		
Total	<u>\$ 1,021,792</u>	Total	<u>\$ 3,036,473</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2013</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	108,810	18,910	-	127,720
Buildings and improvements	<u>165,558</u>	<u>20,218</u>	<u>-</u>	<u>185,776</u>
Subtotal	<u>274,368</u>	<u>39,128</u>	<u>-</u>	<u>313,496</u>
Net capital assets being depreciated	<u>\$ 413,658</u>			<u>\$ 374,530</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, 2013

NOTE 7 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2013:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Current Portion
Governmental Activities					
Loans payable	\$ 1,250,979	\$ -	\$ 94,102	\$ 1,156,877	\$ 82,269
Compensated absences	619,046	940,660	1,028,851	530,855	-
Net OPEB obligation	<u>3,978,351</u>	<u>954,389</u>	<u>974,014</u>	<u>3,958,726</u>	<u>-</u>
	5,848,376	1,895,049	2,096,967	5,646,458	82,269
Business-Type Activities					
Revenue bonds	14,943,550	-	1,416,887	13,526,663	1,456,966
Loans payable	38,876	-	22,224	16,652	16,652
Compensated absences	228,000	598,925	488,925	338,000	-
Net OPEB obligation	<u>393,000</u>	<u>497,763</u>	<u>440,763</u>	<u>450,000</u>	<u>-</u>
	<u>15,603,426</u>	<u>1,096,688</u>	<u>2,368,799</u>	<u>14,331,315</u>	<u>1,473,618</u>
Total Primary Government					
Long-Term Debt	<u>\$21,451,802</u>	<u>\$ 2,991,737</u>	<u>\$ 4,465,766</u>	<u>\$ 19,977,773</u>	<u>\$ 1,555,887</u>

Long-term debt payables at September 30, 2013, 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% \$ 867,166

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 \$254,345 289,711

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - LONG-TERM DEBT - Continued

Compensated absence	530,855
Net OPEB obligation	<u>3,958,726</u>
Total Governmental Activities Long-Term Liabilitie	<u>\$ 5,646,458</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%	\$ 3,017,834
\$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	2,385,000
\$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%	791,070
\$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	1,365,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2013 and ending April 1, 2028, ranging from \$115,000 to \$145,000, including interest paid semi-annually at 1.625%	2,050,587
\$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	3,917,172

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - LONG-TERM DEBT - Continued

Note payable to Michigan Economic Development Corporation, non-interest bearing, monthly payment of \$1,852	16,652
Compensated Absences	338,000
Net OPEB Obligation	<u>450,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>14,331,315</u>
Total Primary Government Long-Term Debt	<u>\$ 19,977,773</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2013 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 82,269	\$ 51,687	\$ 133,956
2015	84,499	49,195	133,694
2016	86,779	46,373	133,152
2017	89,113	43,207	132,320
2018	91,503	39,656	131,159
2019-2023	493,923	131,416	625,339
2024-2026	<u>228,791</u>	<u>20,926</u>	<u>249,717</u>
Total	<u>\$ 1,156,877</u>	<u>\$ 382,460</u>	<u>\$ 1,539,337</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,473,618	\$ 433,240	\$ 1,906,858
2015	1,505,850	385,425	1,891,275
2016	1,549,734	334,649	1,884,383
2017	1,608,618	281,223	1,889,841
2018	627,502	224,635	852,137
2019-2023	3,357,954	826,501	4,184,455
2024-2028	3,127,867	256,011	3,383,878
2029	<u>292,172</u>	<u>7,304</u>	<u>299,476</u>
Total	<u>\$ 13,543,315</u>	<u>\$ 2,748,988</u>	<u>\$ 16,292,303</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - 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, 2013:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2013</u>	<u>Current Portion</u>
Loan Payable	\$ <u>169,288</u>	\$ <u>-</u>	\$ <u>9,800</u>	\$ <u>159,488</u>	\$ <u>10,207</u>

Long-term debt payable at September 30, 2013, 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 \$159,488

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, 2013 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	11,642	3,654	15,296
2019-2023	63,451	13,029	76,480
2024-2026	<u>41,476</u>	<u>1,944</u>	<u>43,420</u>
Total	<u>\$ 159,488</u>	<u>\$ 36,892</u>	<u>\$ 196,380</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - 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, 2013:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2013</u>	Current <u>Portion</u>
Loan Payable	\$ 340,760	\$ -	\$ -	\$ 340,760	\$ -

Long-term debt payable at September 30, 2013, consisted of the following individual issue:

Note payable to Michigan Department of Environmental Quality in the amount of \$340,760, annual payment of \$97,826 including interest at 1.50%, first payment due June 26, 2014, final payment due June 26, 2018	<u>\$340,760</u>
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Local Development Finance Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2013:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2013</u>	Current <u>Portion</u>
Loan Payable	\$ 123,328	\$ -	\$ 22,224	\$ 101,104	\$ 22,224

Long-term debt payable at September 30, 2013, consisted of the following individual issue:

Note payable to City of Sturgis Electric Fund, no specific repayment terms	<u>\$101,104</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - 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, 2013:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Current Portion
Revenue					
Bonds	\$ 9,805,000	\$ -	\$ 220,000	\$ 9,585,000	\$ 230,000

Long-term debt payable at September 30, 2013, 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% \$8,745,000

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% 840,000

Total revenue bonds \$9,585,000

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 7 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2013 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 230,000	\$ 435,072	\$ 665,072
2015	245,000	425,810	670,810
2016	260,000	415,948	675,948
2017	280,000	405,485	685,485
2018	295,000	394,210	689,210
2019-2023	1,775,000	1,771,092	3,546,092
2024-2028	2,425,000	1,323,866	3,748,866
2029-2033	3,290,000	675,148	3,965,148
2034	<u>785,000</u>	<u>37,317</u>	<u>822,317</u>
Total	<u>\$ 9,585,000</u>	<u>\$ 5,883,948</u>	<u>\$ 15,468,948</u>

NOTE 8 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2013, the Water Fund reflected advances due to the following fund:

Electric Fund

Payable in semi-annual installments of \$20,788 including interest at 1.944% final payment due July 28, 2015	\$ 78,293
Payable in semi-annual installments of \$70,891 including interest at 1.944%, final payment due August 1, 2014	<u>84,697</u>
Total Advances Due to Other Funds	<u>\$ 162,990</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 9 - NOTES RECEIVABLE

At September 30, 2013, the Economic Development Fund reflected the following note receivable:

Note receivable from Grav Co., LLC	
collectible in monthly installments	
of \$537 including interest at 3.25%,	
final collection due April, 2019	<u>\$ 31,958</u>

At September 30, 2013, the Electric Fund reflected the following note receivable:

Note receivable from Sturgis Hospital, Inc.	
collectible in monthly installments	
of \$2,247, plus interest at 6%, due	
in full September 30, 2023	<u>\$ 269,693</u>

NOTE 10 - LEASE RECEIVABLE

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2013, 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>\$ 9,585,000</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for most risks of loss to which it is exposed and to cover the majority of the health care benefits provided to City employees. Prior to May 1, 2013, the City was internally self insured for claims arising from workers' compensation for all employees. Effective May 1, 2013, the City purchased commercial insurance for workers' compensation claims. The City continues to maintain the self-insurance reserve in an internal service fund for active run-out claims.

During the year ended September 30, 2013, a total of \$84,410 was incurred in workers' compensation claims and related administrative costs.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2013, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	55,691
Claim payments	<u>(55,691)</u>
Claims liability September 30	<u>\$ 20,000</u>

For all eligible City employees, the City purchases commercial health care insurance. Stop-loss insurance coverage limits claim expense to \$60,000 per contract annually. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for employee medical benefits which totaled \$923,206 in 2013 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2013, was as follows:

Claims liability October 1	\$ 315,000
Current year claims and changes in estimates	923,206
Claim payments	<u>(923,206)</u>
Claims liability September 30	<u>\$ 315,000</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 12 - 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 2013, the City contributed \$112,455 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

NOTE 13 - 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, 2012, the date of the most recent actuarial valuation, membership consisted of 93 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 85 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, 2013

NOTE 13 - 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, 2013, the City's annual pension cost of \$632,146 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, 2010, 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%	-
2013	632,146	100%	-

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS
(DECEMBER 31, 2012)

<u>Eligibility</u>	<u>Amount</u>
REGULAR RETIREMENT	
(no reduction factor for age)	
General and Electrical Union:	Total service multiplied by:
Any age with 25 years of service	
General and Electrical:	General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
Age 60 with 10 year of service or 65 with 5 years of service.	Electrical - 2.0% of FAC
Police and Fire:	
Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	2.5% of FAC
	Type of final average compensation -
	Fire:
	Highest 3 consecutive years out of last 5.
	Others: Highest 5 consecutive years out of last 10
DEFERRED RETIREMENT	
Electrical (hired prior to March 1, 2008), Non-Union (hired prior to January 1, 2009): 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, 2013

NOTE 13 - 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, 2013

NOTE 13 - 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, 2013

NOTE 13 - 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>2012</u>	<u>2011</u>	<u>2010</u>
Annual Pension Cost (APC)	\$ 718,324	\$ 709,230	\$ 570,347
Percentage of APC contributed	89%	99%	107%
Actuarial value of assets	27,991,089	26,883,866	25,937,435
Actuarial accrued liability (entry age)	28,294,833	27,210,414	25,550,487
(Under) Overfunded actuarial accrued liability	(303,744)	(326,548)	386,948
Funded ratio	98.9%	98.8%	101.5%
Covered payroll	4,873,009	4,872,540	4,761,349
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	(6.2)%	(6.7)%	8.1%

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, 2013

NOTE 14 - 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 \$3,958,726 and \$450,000 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, 93 retirees are eligible for health care benefits of which 70 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 2013 the City contributed \$1,227,595 to the Plan of which \$527,595 was used to pay benefits and \$700,000 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, 2013

NOTE 14 - 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	\$ 1,452,152
Interest on net OPEB obligation	<u>-</u>
Annual OPEB cost	1,452,152
Increase in assets held in trust fund	(187,182)
Contributions made	<u>(1,227,595)</u>
Increase in net OPEB obligation	37,375
Net OPEB obligation - beginning of year	<u>4,371,351</u>
Net OPEB obligation - end of year	<u><u>\$ 4,408,726</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013, 2012, 2011, 2010 and 2009 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
9/30/13	1,452,152	84.5%	4,408,726

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, 2013

NOTE 14 - 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, 2013

NOTE 15 - 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 16 - 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, 2013, the City incurred purchased power cost under this agreement of \$14,659,713 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$312,000 for future true-up cost charges.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 17 - CONSTRUCTION COMMITMENTS

Sanitary Sewer Fund

On September 17, 2013, the City issued Sanitary Sewer System Improvement Revenue Bond in the amount of \$3,800,000 with the Michigan Finance Authority. As of September 30, 2013, the City had receipted \$-0- from the bond issue and had incurred project costs totaling \$391,623 reflected as construction in process. This project is expected to be completed during fiscal year ending September 30, 2014 with the available bond proceeds.

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, 2013, \$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, 2013, \$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. The loan balance is \$340,760.

NOTE 18 - 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, 2013, 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, 2013

NOTE 19 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority and the Local Development Finance Authority component units had deficits in net position at September 30, 2013, of \$340,760 and \$100,823, 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 position deficits with future tax increment financing collections.

NOTE 20 - FEDERAL REVENUES

The following is a listing of the federal revenues as reported on the Fund Financial Statements of the City of Sturgis for the year ended September 30, 2013.

Investments for Public Works and Economic
Development Facilities

Sanitary Sewer Fund - capital contributions	\$ 86,279
Water Fund - capital contributions	<u>67,792</u>
	154,071

Byrne JAG Program

General Fund - federal revenue	<u>35,000</u>
	189,071

Administered by Michigan Department of
Transportation - including Single Audit requirements

Municipal Street Fund - federal revenue	<u>297,600</u>
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Total federal sources	<u><u>\$ 486,671</u></u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 21 - NEW ACCOUNTING STANDARDS

For the year end September 30, 2013 the City implemented the following new pronouncements:

GASB Statement 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

SUMMARY:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.

SUMMARY:

These Statements provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 21 - NEW ACCOUNTING STANDARDS - (Continued)

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NOTE 22 - UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for September 30, 2014 and Statement No. 68 one year later.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,725,003	\$2,725,003	\$2,703,766	\$ (21,237)
Special assessments	5,000	5,000	2,680	(2,320)
Licenses and permits	65,500	65,500	72,943	7,443
Federal grants	35,000	35,000	35,000	-
State grants	58,200	38,200	37,177	(1,023)
State shared revenue	930,550	930,550	935,468	4,918
Charges for services	116,000	116,000	136,470	20,470
Fines and forfeits	33,500	33,500	25,212	(8,288)
Investment income	336,500	336,500	323,435	(13,065)
Payments in lieu of taxes	2,119,740	2,119,740	2,119,740	-
Administrative reimbursement	948,072	948,072	948,072	-
Other	<u>132,100</u>	<u>132,100</u>	<u>147,225</u>	<u>15,125</u>
Total revenue	7,505,165	7,485,165	7,487,188	2,023
EXPENDITURES				
Legislative	41,530	56,530	50,020	6,510
General government	1,292,990	1,258,990	1,307,213	(48,223)
Public safety	4,200,516	4,171,516	3,935,589	235,927
Public works	342,047	327,047	312,071	14,976
Health and welfare	68,000	68,000	64,266	3,734
Recreation and cultural	342,252	342,252	343,439	(1,187)
Capital outlay	153,000	202,000	181,698	20,302
Debt services	<u>16,080</u>	<u>16,080</u>	<u>20,012</u>	<u>(3,932)</u>
Total expenditures	<u>6,456,415</u>	<u>6,442,415</u>	<u>6,214,308</u>	<u>228,107</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,048,750	1,042,750	1,272,880	230,130
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,460,100)</u>	<u>(1,541,100)</u>	<u>(1,541,100)</u>	<u>-</u>
Total other financing sources (uses)	(1,460,100)	(1,541,100)	(1,541,100)	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(411,350)	(498,350)	(268,220)	230,130
FUND BALANCE - BEGINNING OF YEAR	<u>2,789,354</u>	<u>2,789,354</u>	<u>2,789,354</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,378,004</u>	<u>\$2,291,004</u>	<u>\$2,521,134</u>	<u>\$ 230,130</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ -	\$ -	\$ -	\$ -
State grants	75,000	75,000	69,787	(5,213)
State shared revenue	517,964	517,964	530,571	12,607
Investment income	100	100	68	(32)
Other	<u>3,000</u>	<u>3,000</u>	<u>8,234</u>	<u>5,234</u>
Total revenue	596,064	596,064	608,660	12,596
EXPENDITURES				
Public works	<u>651,144</u>	<u>651,144</u>	<u>635,509</u>	<u>15,635</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(55,080)	(55,080)	(26,849)	28,231
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(55,080)	(55,080)	(26,849)	28,231
FUND BALANCE - BEGINNING OF YEAR	<u>162,395</u>	<u>162,395</u>	<u>162,395</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 107,315</u>	<u>\$ 107,315</u>	<u>\$ 135,546</u>	<u>\$ 28,231</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 250,810	\$ 250,810	\$ 250,918	\$ 108
Special assessments	1,500	1,500	-	(1,500)
State grants	8,000	8,000	8,446	446
State shared revenue	189,500	189,500	194,162	4,662
Investment income	180	180	121	(59)
Other	<u>6,000</u>	<u>6,000</u>	<u>7,804</u>	<u>1,804</u>
Total revenue	455,990	455,990	461,451	5,461
EXPENDITURES				
Public works	<u>471,740</u>	<u>491,740</u>	<u>484,996</u>	<u>6,744</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(15,750)	(35,750)	(23,545)	12,205
FUND BALANCE - BEGINNING OF YEAR	<u>90,567</u>	<u>90,567</u>	<u>90,567</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 74,817</u>	<u>\$ 54,817</u>	<u>\$ 67,022</u>	<u>\$ 12,205</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Federal grants	\$ -	\$ -	\$ 297,600	\$ 297,600
Investment income	<u>-</u>	<u>-</u>	<u>817</u>	<u>817</u>
Total revenue	-	-	298,417	298,417
EXPENDITURES				
Public works	<u>697,499</u>	<u>697,499</u>	<u>605,562</u>	<u>91,937</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(697,499)	(697,499)	(307,145)	390,354
OTHER FINANCING SOURCES (USES)				
Operating transfers in	690,000	690,000	690,000	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>690,000</u>	<u>690,000</u>	<u>690,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(7,499)	(7,499)	382,855	390,354
FUND BALANCE - BEGINNING OF YEAR	<u>153,468</u>	<u>153,468</u>	<u>153,468</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 145,969</u>	<u>\$ 145,969</u>	<u>\$ 536,323</u>	<u>\$ 390,354</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET/SIDEWALK IMPROVEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ -	\$ 994,000	\$ 707,524	\$ (286,476)
Investment income	-	-	-	-
Other	-	-	-	-
Total revenue	-	994,000	707,524	(286,476)
EXPENDITURES				
Public works	-	992,665	12,956	979,709
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	-	1,335	694,568	693,233
FUND BALANCE - BEGINNING OF YEAR	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ 1,335	\$ 694,568	\$ 693,233

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Investment income	\$ 500	\$ 500	\$ 126	\$ (374)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(77,060)</u>	<u>(77,060)</u>	<u>(76,686)</u>	<u>374</u>
Total other financing sources (uses)	<u>(77,060)</u>	<u>(77,060)</u>	<u>(76,686)</u>	<u>374</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(76,560)	(76,560)	(76,560)	-
FUND BALANCE - BEGINNING OF YEAR	<u>76,560</u>	<u>76,560</u>	<u>76,560</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

Schedule of Funding Progress

(Dollars represented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
12/31/12	27,991	28,295	304	98.9%	4,873	6.2%

* 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>
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%
2012	718,324	89.0%

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 13 on pages 64 through 69.

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFITS

Schedule of Funding Progress

(Dollars represented in thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
12/31/05	\$ -	\$ 16,267	\$ 16,267	0%	\$ 5,107	318%
12/31/07	-	17,702	17,702	0%	4,986	355%
12/31/09	-	17,475	17,475	0%	4,973	351%
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, 2013

	Special Revenue Funds	Permanent Funds Cemetery Trust Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 318,681	\$ 163,869	\$ 482,550
Investments	-	718,937	718,937
Receivables			
Accounts	37,996	-	37,996
Interest	-	2,208	2,208
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepaid items	22,971	-	22,971
Inventory	<u>67,169</u>	<u>-</u>	<u>67,169</u>
Total assets	<u>\$ 446,817</u>	<u>\$ 885,014</u>	<u>\$ 1,331,831</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 39,727	\$ -	\$ 39,727
Due to other funds	-	-	-
Accrued expenses	18,254	-	18,254
Unearned revenue	<u>76,813</u>	<u>-</u>	<u>76,813</u>
Total liabilities	134,794	-	134,794
Fund Balance			
Nonspendable	90,140	-	90,140
Restricted	2,132	885,014	887,146
Committed	<u>219,751</u>	<u>-</u>	<u>219,751</u>
Total fund balance	<u>312,023</u>	<u>885,014</u>	<u>1,197,037</u>
Total liabilities and fund balance	<u>\$ 446,817</u>	<u>\$ 885,014</u>	<u>\$ 1,331,831</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue Funds	Permanent Funds Cemetery Trust Fund	Total Non-Major Governmental Funds
Revenue			
License and permits	\$ 31,799	\$ -	\$ 31,799
State grants	23,760	-	23,760
Charges for services	1,087,065	4,209	1,091,274
Fines and forfeits	2,326	-	2,326
Investment income (loss)	-	(12,400)	(12,400)
Contributions	91,066	-	91,066
Other	<u>46,835</u>	<u>-</u>	<u>46,835</u>
Total revenue	1,282,851	(8,191)	1,274,660
Expenditures			
General government	295,216	-	295,216
Public safety	115,075	-	115,075
Public works	270,499	-	270,499
Recreation and cultural	1,263,295	-	1,263,295
Capital outlay	10,738	-	10,738
Debt service	<u>90,170</u>	<u>-</u>	<u>90,170</u>
Total expenditures	<u>2,044,993</u>	<u>-</u>	<u>2,044,993</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(762,142)	(8,191)	(770,333)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	855,062	-	855,062
Operating transfers out	<u>-</u>	<u>(7,276)</u>	<u>(7,276)</u>
Total other financing sources (uses)	<u>855,062</u>	<u>(7,276)</u>	<u>847,786</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	92,920	(15,467)	77,453
FUND BALANCE - BEGINNING OF YEAR	<u>219,103</u>	<u>900,481</u>	<u>1,119,584</u>
FUND BALANCE - END OF YEAR	<u>\$ 312,023</u>	<u>\$ 885,014</u>	<u>\$ 1,197,037</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2013

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 15,563	\$ 29,167	\$ 28,004	\$ 2,288
Accounts receivables	-	-	551	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 15,563</u>	<u>\$ 29,167</u>	<u>\$ 28,555</u>	<u>\$ 2,288</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 106	\$ 5,972	\$ 1,307	\$ -
Due to other funds	-	-	-	-
Accrued expenses	973	-	2,747	156
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	1,079	5,972	4,054	156
Fund Balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	2,132
Committed	<u>14,484</u>	<u>23,195</u>	<u>24,501</u>	<u>-</u>
Total fund balance	<u>14,484</u>	<u>23,195</u>	<u>24,501</u>	<u>2,132</u>
Total liabilities and fund balance	<u>\$ 15,563</u>	<u>\$ 29,167</u>	<u>\$ 28,555</u>	<u>\$ 2,288</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>
\$ 18,567	\$ 100,661	\$ 27,851	\$ 56,105	\$ 40,475	\$ 318,681
-	17,520	10,010	-	9,915	37,996
-	-	-	-	-	-
-	-	-	-	-	-
-	-	22,971	-	-	22,971
-	20,176	-	-	46,993	67,169
<u>\$ 18,567</u>	<u>\$ 138,357</u>	<u>\$ 60,832</u>	<u>\$ 56,105</u>	<u>\$ 97,383</u>	<u>\$ 446,817</u>
\$ 1,980	\$ 16,768	\$ 4,291	\$ 4,729	\$ 4,574	\$ 39,727
-	-	-	-	-	-
1,534	8,864	329	3,427	224	18,254
-	37,227	21,031	18,555	-	76,813
3,514	62,859	25,651	26,711	4,798	134,794
-	20,176	22,971	-	46,993	90,140
-	-	-	-	-	2,132
<u>15,053</u>	<u>55,322</u>	<u>12,210</u>	<u>29,394</u>	<u>45,592</u>	<u>219,751</u>
<u>15,053</u>	<u>75,498</u>	<u>35,181</u>	<u>29,394</u>	<u>92,585</u>	<u>312,023</u>
<u>\$ 18,567</u>	<u>\$ 138,357</u>	<u>\$ 60,832</u>	<u>\$ 56,105</u>	<u>\$ 97,383</u>	<u>\$ 446,817</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2013

	Building Department <u>Fund</u>	Housing Department <u>Fund</u>	Cemetery <u>Fund</u>	Drug Enforcement <u>Fund</u>
Revenue				
License and permits	\$ 31,799	\$ -	\$ -	\$ -
State grants	-	23,760	-	-
Charges for services	-	-	72,412	-
Fines and forfeits	-	-	-	2,326
Contributions	-	-	-	-
Other	<u>13</u>	<u>231</u>	<u>3,914</u>	<u>-</u>
Total revenue	31,812	23,991	76,326	2,326
Expenditures				
General government	-	86,115	209,101	-
Public safety	92,412	-	-	22,663
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>92,412</u>	<u>86,115</u>	<u>209,101</u>	<u>22,663</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(60,600)	(62,124)	(132,775)	(20,337)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	65,000	60,000	157,276	20,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>65,000</u>	<u>60,000</u>	<u>157,276</u>	<u>20,000</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	4,400	(2,124)	24,501	(337)
FUND BALANCE - BEGINNING OF YEAR	<u>10,084</u>	<u>25,319</u>	<u>-</u>	<u>2,469</u>
FUND BALANCE - END OF YEAR	<u>\$ 14,484</u>	<u>\$ 23,195</u>	<u>\$ 24,501</u>	<u>\$ 2,132</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,799
-	-	-	-	-	23,760
63,030	386,601	53,369	340,493	171,160	1,087,065
-	-	-	-	-	2,326
11,077	-	60,195	19,794	-	91,066
<u>65</u>	<u>18,941</u>	<u>187</u>	<u>4,465</u>	<u>19,019</u>	<u>46,835</u>
74,172	405,542	113,751	364,752	190,179	1,282,851
-	-	-	-	-	295,216
-	-	-	-	-	115,075
-	-	-	-	270,499	270,499
179,035	604,275	116,899	363,086	-	1,263,295
-	-	-	10,738	-	10,738
<u>-</u>	<u>75,674</u>	<u>-</u>	<u>14,496</u>	<u>-</u>	<u>90,170</u>
<u>179,035</u>	<u>679,949</u>	<u>116,899</u>	<u>388,320</u>	<u>270,499</u>	<u>2,044,993</u>
(104,863)	(274,407)	(3,148)	(23,568)	(80,320)	(762,142)
105,000	315,881	-	51,905	80,000	855,062
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>105,000</u>	<u>315,881</u>	<u>-</u>	<u>51,905</u>	<u>80,000</u>	<u>855,062</u>
137	41,474	(3,148)	28,337	(320)	92,920
<u>14,916</u>	<u>34,024</u>	<u>38,329</u>	<u>1,057</u>	<u>92,905</u>	<u>219,103</u>
<u>\$ 15,053</u>	<u>\$ 75,498</u>	<u>\$ 35,181</u>	<u>\$ 29,394</u>	<u>\$ 92,585</u>	<u>\$ 312,023</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Motor Vehicle and Equipment Fund	Workers' Compensation Insurance Fund	Employee Benefit Fund	Combined Totals
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 167,664	\$ 176,775	\$ 551,288	\$ 895,727
Investments	1,000,000	-	-	1,000,000
Receivables	4,529	440	2,429	7,398
Due from other funds	-	-	-	-
Prepaid items	-	87,868	149,892	237,760
Inventory	<u>4,029</u>	<u>-</u>	<u>-</u>	<u>4,029</u>
Total current assets	1,176,222	265,083	703,609	2,144,914
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,160,292</u>	<u>-</u>	<u>-</u>	<u>1,160,292</u>
Total assets	2,336,514	265,083	703,609	3,305,206
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	24,235	-	-	24,235
Accounts payable	46,381	20,000	332,015	398,396
Accrued expenses	1,473	-	-	1,473
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	72,089	20,000	332,015	424,104
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>265,476</u>	<u>-</u>	<u>-</u>	<u>265,476</u>
Total liabilities	337,565	20,000	332,015	689,580
NET POSITION				
Invested in capital assets, net of related debt	870,581	-	-	870,581
Unrestricted	<u>1,128,368</u>	<u>245,083</u>	<u>371,594</u>	<u>1,745,045</u>
Total net position	<u>\$ 1,998,949</u>	<u>\$ 245,083</u>	<u>\$ 371,594</u>	<u>\$ 2,615,626</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

	Motor Vehicle and Equipment Fund	Workers' Compensation Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 873,949	\$ 100,000	\$1,808,928	\$ 2,782,877
Other revenues	<u>1,366</u>	<u>908</u>	<u>357,476</u>	<u>359,750</u>
Total operating revenue	875,315	100,908	2,166,404	3,142,627
OPERATING EXPENSES				
Operating and administrative	518,521	9,340	64,441	592,302
Insurance premiums and claims	-	96,087	2,443,430	2,539,517
Depreciation	<u>236,077</u>	<u>-</u>	<u>-</u>	<u>236,077</u>
Total operating expenses	<u>754,598</u>	<u>105,427</u>	<u>2,507,871</u>	<u>3,367,896</u>
OPERATING INCOME (LOSS)	120,717	(4,519)	(341,467)	(225,269)
NONOPERATING REVENUE (EXPENSE)				
Investment income	16,223	396	1,828	18,447
Gain (loss) on sale of fixed assets	72,022	-	-	72,022
Interest expense	<u>(14,567)</u>	<u>-</u>	<u>-</u>	<u>(14,567)</u>
Total nonoperating revenue (expense)	<u>73,678</u>	<u>396</u>	<u>1,828</u>	<u>75,902</u>
CHANGE IN NET POSITION	194,395	(4,123)	(339,639)	(149,367)
NET POSITION - BEGINNING OF YEAR	<u>1,804,554</u>	<u>249,206</u>	<u>711,233</u>	<u>2,764,993</u>
NET POSITION - END OF YEAR	<u>\$ 1,998,949</u>	<u>\$ 245,083</u>	<u>\$ 371,594</u>	<u>\$ 2,615,626</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2013

	Motor Vehicle and Equipment Fund	Workers' Compensation Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 564	\$ 468	\$ 378,399	\$ 379,431
Receipts for internal				
services provided	873,949	100,000	1,808,928	2,782,877
Payments to suppliers	(427,958)	(193,295)	(2,803,777)	(3,425,030)
Payments to employees	<u>(57,996)</u>	<u>-</u>	<u>-</u>	<u>(57,996)</u>
Net cash provided by (used				
for) operating activities	388,559	(92,827)	(616,450)	(320,718)
Cash flows from capital and				
related financing activities				
Acquisition of capital				
assets	(651,615)	-	-	(651,615)
Proceeds from sale of				
capital assets	72,022	-	-	72,022
Proceeds from				
long-term debt	-	-	-	-
Principal paid on debt	(22,209)	-	-	(22,209)
Interest paid on debt	<u>(14,567)</u>	<u>-</u>	<u>-</u>	<u>(14,567)</u>
Net cash provided by (used				
for) capital and related				
financing activities	(616,369)	-	-	(616,369)
Cash flows from				
investing activities				
Interest on investments	<u>16,223</u>	<u>396</u>	<u>1,828</u>	<u>18,447</u>
Net increase (decrease)				
in cash	(211,587)	(92,431)	(614,622)	(918,640)
Cash - Beginning of Year	<u>379,251</u>	<u>269,206</u>	<u>1,165,910</u>	<u>1,814,367</u>
Cash - End of Year	<u>\$ 167,664</u>	<u>\$ 176,775</u>	<u>\$ 551,288</u>	<u>\$ 895,727</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2013

	Motor Vehicle and Equipment Fund	Workers' Compensation Insurance Fund	Employee Benefit Fund	Combined Totals
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 120,717	\$ (4,519)	\$ (341,467)	\$ (225,269)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	236,077	-	-	236,077
(Increase) decrease in				
Receivables	(4,529)	(440)	20,923	15,954
Due from other funds	-	-	-	-
Prepaid items	-	(87,868)	(149,892)	(237,760)
Inventory	690	-	-	690
Increase (decrease) in				
Accounts payable	35,461	-	(146,014)	(110,553)
Accrued expenses	143	-	-	143
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 388,559</u>	<u>\$ (92,827)</u>	<u>\$ (616,450)</u>	<u>\$ (320,718)</u>

**CITY OF STURGIS
COMPONENT UNIT FUND
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
SEPTEMBER 30, 2013**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 55,364
Accounts receivable	1,206
Due from governmental units	37,889
Prepaid assets	<u>100</u>
Total assets	<u><u>\$ 94,559</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 2,989
Customer deposits	945
Unearned revenue	<u>39,489</u>
Total liabilities	43,423
Fund Balance	
Nonspendable	100
Restricted	<u>51,036</u>
Total fund balance	<u><u>51,136</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 94,559</u></u>

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

Total fund balance - governmental fund	\$ 51,136
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Amounts reported for the governmental activities in the statement of net position 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>(313,496)</u>	374,530

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

Note payable	<u>(159,488)</u>
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Net position of governmental activities	<u><u>\$ 266,178</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, 2013**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 41,481
Charges for services	10,238
Interest	81
Rents	9,210
Other	<u>6,908</u>
Total revenues	67,918
EXPENDITURES	
Economic development	56,737
Debt service - principal	9,800
Debt service - interest	<u>5,496</u>
Total expenditures	<u>72,033</u>
EXCESS OF REVENUE OVER EXPENDITURES	(4,115)
FUND BALANCE - BEGINNING OF YEAR	<u>55,251</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 51,136</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 \$ (4,115)

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 position.

Principal payments on debt obligations	<u>9,800</u>
Change in net position of governmental activities	<u><u>\$ (33,443)</u></u>

**CITY OF STURGIS
COMPONENT UNIT FUND
BROWNFIELD REDEVELOPMENT AUTHORITY
BALANCE SHEET
SEPTEMBER 30, 2013**

	<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 POSITION**

Total fund balance - governmental fund	\$ -
Amounts reported for the governmental activities in the statement of net position 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 position 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, 2013**

	<u>General</u>
REVENUE	
Interest	\$ -
Other	<u>-</u>
Total revenues	-
EXPENDITURES	
Debt service - principal	-
Debt service - interest	<u>-</u>
Total expenditures	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>

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

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

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ <u>15,914</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Unearned revenue	\$ 15,633
Fund Balance	
Restricted	<u>281</u>
 Total Liabilities and Fund Balance	 \$ <u>15,914</u>

RECONCILIATION OF THE BALANCE SHEET TO
 THE STATEMENT OF NET POSITION

Total fund balance - governmental fund	\$ 281
Amounts reported for the governmental activities in the statement of net position 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>(101,104)</u>
Net position of governmental activities	<u>\$ (100,823)</u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>
REVENUE	
Captured property taxes	\$ 11,312
Interest	<u>22</u>
Total revenues	11,334
 EXPENDITURES	
Debt service-principal	<u>22,224</u>
 EXCESS OF REVENUE OVER EXPENDITURES	 (10,890)
 FUND BALANCE - BEGINNING OF YEAR	 <u>11,171</u>
 FUND BALANCE - END OF YEAR	 <u><u>\$ 281</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	\$ (10,890)
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 position	 <u>22,224</u>
Change in net position of governmental activities	<u><u>\$ 11,334</u></u>

CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2013

	<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 POSITION**

Total fund balance - governmental fund \$ -

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

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

Lease receivable 9,585,000

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

Bonds payable (9,585,000)

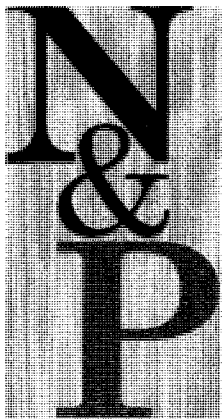
Net position of governmental activities \$ -

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2013**

	<u>General</u>
REVENUE	
Lease income	\$ 663,447
Other	<u>725</u>
Total Revenues	664,172
EXPENDITURES	
Debt service - principal	220,000
Debt service - interest	443,447
Other	<u>725</u>
Total Expenditures	<u>664,172</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 position	(220,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>220,000</u>
Change in net position of governmental activities	<u><u>\$ -</u></u>



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

To the City Commission
City of Sturgis, Michigan

Norman & Paulsen, P.C.
Certified Public Accountants

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We have audited, 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, 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 City of Sturgis as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Sturgis' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sturgis' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sturgis' internal control.

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 on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

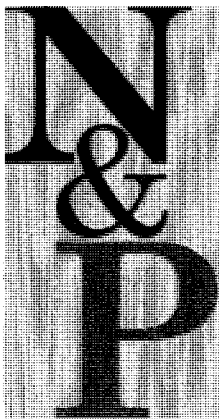
As part of obtaining reasonable assurance about whether City of Sturgis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 28, 2014

Norman & Paulsen, P.C.



Norman & Paulsen, P.C.
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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, 2013, and have issued our report thereon dated March 28, 2014. 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, 2013, 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, 2013.

Patrick L. Monahan, CPA
Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA
Donald L. Paulsen, Retired
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 significant 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, 2014.

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 & Paulson, P.C.

March 28, 2014