



**CITY OF STURGIS  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

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

**Report on the 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 the City of Sturgis, Michigan (the "City"), as of and for the year ended September 30, 2020, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 the City, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the pension and other postemployment benefits information, and budgetary comparison information, as listed 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 the City's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and were derived from and relate 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 audit 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 basic 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 basic financial statements as a whole.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC  
Sturgis, Michigan  
April 30, 2021

## **Management's Discussion and Analysis**

**City of Sturgis**  
**Management's Discussion and Analysis**  
**September 30, 2020**

As management of the *City of Sturgis, Michigan* (the "City" or "government"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

The financial statements, which follow this management's discussion and analysis, provide these key financial highlights for the current fiscal year as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year September 30, 2020 by \$93,746,847 (net position). Of this, \$54,183,896 was the net investment in capital assets, \$4,126,473 was restricted, and the remaining was unrestricted with a balance of \$35,436,478.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$11,748,781, an increase of \$1,318,179 in comparison with the prior year. Approximately 26.1% of this amount, or \$3,071,980, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,071,980, or 33.0% of the general fund's annualized expenditures and transfers out.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.



The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences and long-term debt).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include legislative, general government, public safety, public works, health and welfare, recreation and culture, community and economic development, and interest expense. The business-type activities include the sewer, water, and electric activities.

### ***Component Units***

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority, Brownfield Redevelopment Authority, Local Development Finance Authority, and the Building Authority, which are legally separate component units for which the City is financially accountable.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### ***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds (nonmajor governmental funds). Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. Budgetary comparison schedules have been provided for the general fund (as required supplemental information).

### ***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, sanitary sewer, and water activities. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions.

The City utilizes internal service funds to account for its equipment and motor pool activities. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, which are considered to be major funds of the City. Conversely, the internal service funds are aggregate presentations in the proprietary fund financial statements.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### ***Other information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis,

required pension and other postemployment benefit information, and budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

The combining statements referred to earlier in connection with nonmajor governmental and internal service funds are presented immediately following the required supplementary information.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$93,746,847 at the close of the most recent fiscal year. The following chart illustrates the composition of net position:

### City of Sturgis' Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Investments	\$ 16,518,271	\$ 15,748,170	\$ 22,001,866	\$ 20,933,606	\$ 38,520,137	\$ 36,681,776
Receivables	353,347	397,635	4,412,013	4,156,028	4,765,360	4,553,663
Inventory and Prepaid Items	173,299	305,558	2,875,218	1,542,854	3,048,517	1,848,412
<b>Total Current Assets</b>	<b>17,044,917</b>	<b>16,451,363</b>	<b>29,289,097</b>	<b>26,632,488</b>	<b>46,334,014</b>	<b>43,083,851</b>
<i>Noncurrent Assets</i>						
Restricted Assets	-	-	184,446	185,492	184,446	185,492
Net Pension Asset	74,735	-	49,823	-	124,558	-
Capital Assets, Net	20,148,168	18,946,040	42,773,223	42,774,688	62,921,391	61,720,728
Long-term Receivables	-	-	1,700,000	1,700,000	1,700,000	1,700,000
<b>Total Assets</b>	<b>37,267,820</b>	<b>35,397,403</b>	<b>73,996,589</b>	<b>71,292,668</b>	<b>111,264,409</b>	<b>106,690,071</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension	57,295	299,895	38,197	199,928	95,492	499,823
OPEB	658,880	204,521	208,067	64,585	866,947	269,106
<b>Total Deferred Outflows of Resources</b>	<b>716,175</b>	<b>504,416</b>	<b>246,264</b>	<b>264,513</b>	<b>962,439</b>	<b>768,929</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	713,297	1,363,640	1,548,395	2,021,702	2,261,692	3,385,342
Accrued Expenses and Other Liabilities	271,837	232,232	679,623	728,544	951,460	960,776
Unearned Revenue	131,756	161,577	-	-	131,756	161,577
Current Portion of Long-term Debt	146,389	146,343	803,127	794,218	949,516	940,561
<b>Total Current Liabilities</b>	<b>1,263,279</b>	<b>1,903,792</b>	<b>3,031,145</b>	<b>3,544,464</b>	<b>4,294,424</b>	<b>5,448,256</b>
<i>Noncurrent Liabilities</i>						
Compensated Absences	690,420	618,840	277,000	231,000	967,420	849,840
Net OPEB Liability	804,330	1,313,014	254,000	414,635	1,058,330	1,727,649
Net Pension Liability	-	433,896	-	289,265	-	723,161
Long-term Debt	960,474	1,107,013	6,827,505	7,630,478	7,787,979	8,737,491
<b>Total Liabilities</b>	<b>3,718,503</b>	<b>5,376,555</b>	<b>10,389,650</b>	<b>12,109,842</b>	<b>14,108,153</b>	<b>17,486,397</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension	243,072	41,756	162,047	27,838	405,119	69,594
OPEB	1,254,949	749,942	396,301	236,824	1,651,250	986,766
Unavailable Revenue	2,315,479	2,282,408	-	-	2,315,479	2,282,408
<b>Total Deferred Inflows of Resources</b>	<b>3,813,500</b>	<b>3,074,106</b>	<b>558,348</b>	<b>264,662</b>	<b>4,371,848</b>	<b>3,338,768</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	19,041,305	17,692,684	35,142,591	34,349,992	54,183,896	52,042,676
Restricted	4,064,188	3,258,030	62,285	180,492	4,126,473	3,438,522
Unrestricted	7,346,499	6,500,444	28,089,979	24,652,193	35,436,478	31,152,637
<b>Total Net Position</b>	<b>\$ 30,451,992</b>	<b>\$ 27,451,158</b>	<b>\$ 63,294,855</b>	<b>\$ 59,182,677</b>	<b>\$ 93,746,847</b>	<b>\$ 86,633,835</b>

A large portion of the City's net position (\$54,183,896, or 57.8%) reflect its net investment in capital assets (e.g., land and land improvements, construction in process, buildings and improvements, water, and sewer systems, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net position restricted for highways and streets, capital projects, perpetual care, and debt service represents \$4,126,473, or 4.4%. The remaining balance of unrestricted net position was \$35,436,478, or 37.8%, as of September 30, 2020.

Cash and investments increased by \$1,838,361 as there was an increase in federal and state funding, licenses and fees, and user fees. Receivables increased by \$211,697 primarily as a result to an increase in aging of utility fees. The City's net pension liability of \$723,161 changed into a net pension asset of \$124,558 as a result of a greater amount of investment income on the plan's retirement assets compared to the prior year. Net OPEB liability decreased significantly by \$669,319 as a result of better investment income on the plan's OPEB assets and a greater difference between expected and actual experience. Accounts payable decreased by \$1,123,650 as a result of decreased purchases closer to year-end. Compensated absences increased by \$117,580 as less employees used their paid sick and vacation time off due to the COVID-19 Pandemic.

The following table presents a summary of the changes in net position for the years ended September 30, 2020 and September 30, 2019:

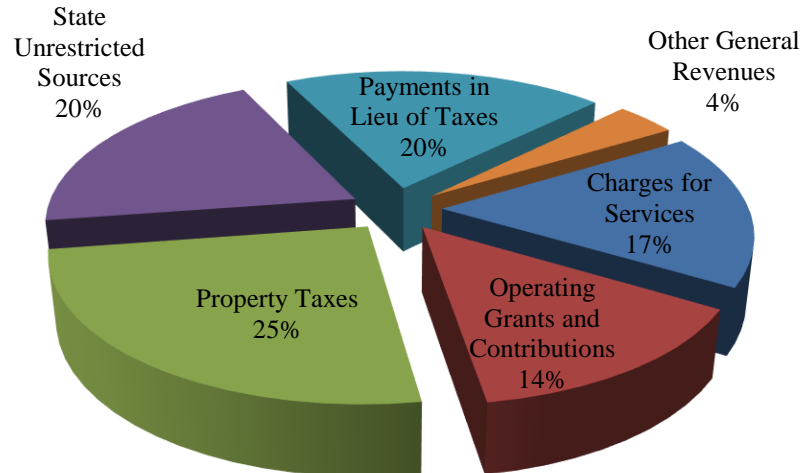
**City of Sturgis' Changes in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 2,359,534	\$ 2,614,102	\$ 31,088,164	\$ 31,298,360	\$ 33,447,698	\$ 33,912,462
Operating Grants and Contributions	1,930,535	3,166,864	-	-	1,930,535	3,166,864
Capital Grants and Contributions	-	75,876	-	-	-	75,876
<b>Total Program Revenues</b>	<b>4,290,069</b>	<b>5,856,842</b>	<b>31,088,164</b>	<b>31,298,360</b>	<b>35,378,233</b>	<b>37,155,202</b>
<b>General Revenues</b>						
Property Taxes	3,470,447	3,330,713	-	-	3,470,447	3,330,713
State Unrestricted Sources	2,776,738	1,098,890	-	-	2,776,738	1,098,890
Unrestricted Investment Earnings	213,956	352,651	441,308	690,569	655,264	1,043,220
Other General Revenues	305,335	308,706	833,970	474,932	1,139,305	783,638
Payments in Lieu of Taxes	2,743,157	2,631,917	-	-	2,743,157	2,631,917
<b>Total General Revenues</b>	<b>9,509,633</b>	<b>7,722,877</b>	<b>1,275,278</b>	<b>1,165,501</b>	<b>10,784,911</b>	<b>8,888,378</b>
<b>Total Revenues</b>	<b>13,799,702</b>	<b>13,579,719</b>	<b>32,363,442</b>	<b>32,463,861</b>	<b>46,163,144</b>	<b>46,043,580</b>
<b>Expenses</b>						
Legislative	28,324	41,255	-	-	28,324	41,255
General Government	1,643,966	1,771,034	-	-	1,643,966	1,771,034
Public Safety	4,280,021	4,743,712	-	-	4,280,021	4,743,712
Public Works	2,393,752	3,140,005	-	-	2,393,752	3,140,005
Recreation and Culture	1,967,920	2,341,035	-	-	1,967,920	2,341,035
Health and Welfare	1,500	1,000	-	-	1,500	1,000
Community and Economic Development	301,922	292,086	-	-	301,922	292,086
Interest on Long-term Debt	43,423	48,239	-	-	43,423	48,239
Electric, Sewer, and Water	-	-	28,389,304	30,891,397	28,389,304	30,891,397
<b>Total Expenses</b>	<b>10,660,828</b>	<b>12,378,366</b>	<b>28,389,304</b>	<b>30,891,397</b>	<b>39,050,132</b>	<b>43,269,763</b>
<b>Change in Net Position before Transfers</b>	<b>3,138,874</b>	<b>1,201,353</b>	<b>3,974,138</b>	<b>1,572,464</b>	<b>7,113,012</b>	<b>2,773,817</b>
Net Transfers	(138,040)	(113,640)	138,040	113,640	-	-
<b>Change in Net Position</b>	<b>3,000,834</b>	<b>1,087,713</b>	<b>4,112,178</b>	<b>1,686,104</b>	<b>7,113,012</b>	<b>2,773,817</b>
<i>Net Position at Beginning of Period</i>	<i>27,451,158</i>	<i>26,363,445</i>	<i>59,182,677</i>	<i>57,496,573</i>	<i>86,633,835</i>	<i>83,860,018</i>
<b>Net Position at End of Period</b>	<b>\$ 30,451,992</b>	<b>\$ 27,451,158</b>	<b>\$ 63,294,855</b>	<b>\$ 59,182,677</b>	<b>\$ 93,746,847</b>	<b>\$ 86,633,835</b>

**Governmental Activities.** Governmental activities increased the City's net position by \$3,000,834 for the year ended September 30, 2020 compared to an increase of \$1,087,713 for the prior year. Total revenues increased by \$219,983 and total expenses decreased by \$1,717,538. Charges for services and operating grants and contributions decreased by \$254,568 and \$1,236,329, respectively, due to the COVID-19 Pandemic. This, along with decreases in both the net pension liability and net OPEB liability, was the cause of the overall decrease in expenses across all functions. Property taxes increased by \$139,734 due to an increase in property assessments. Unrestricted state sources such as state revenue sharing and PPT reimbursements increased during the year causing a net increase of \$1,677,848.

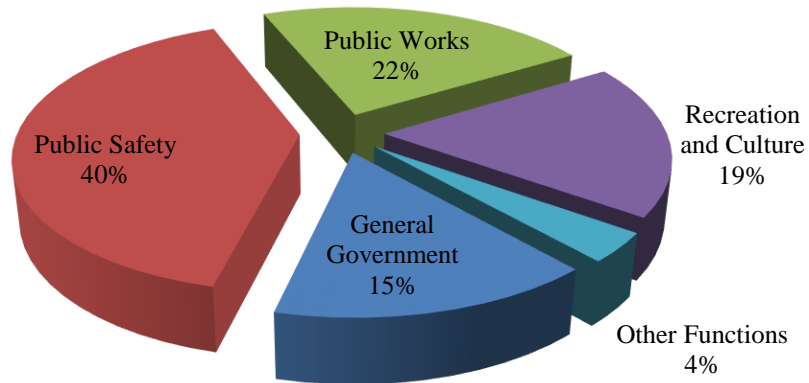
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:

### Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end:

### Governmental Activities Expenses



**Business-type Activities.** Business-type activities increased the City's net position by \$4,112,178 for the year ended September 30, 2020 compared to an increase of \$1,686,104 in the prior year.

Key components of this change are as follows:

- The electric fund had an increase in net position of \$3,224,209 which was mainly due to the increase in other general revenues and investment income and a decrease in overall expenses due to the COVID-19 Pandemic.
- The sanitary sewer fund had an increase in net position of \$850,069 which was mainly due to an increase in charges for services and a decrease in overall expenses due to the COVID-19 Pandemic.
- The water fund had an increase in net position of \$37,900 which was mainly due to the regular operations of the fund.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

#### ***Governmental Funds***

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Commission.

At September 30, 2020, the City's governmental funds reported combined fund balances of \$11,748,781, an increase of \$1,318,179 in comparison with the prior year. Approximately 26.1% of this amount, or \$3,071,980, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable or restricted* to indicate that it is: 1) not in spendable form, (\$175,920, or 1.5%, for prepaid and inventory items and nonexpendable endowments), 2) restricted for particular purposes, \$3,919,966, or 33.4%, 3) assigned for specific purposes, \$35,270, or 0.3%, or 4) committed for specific purposes, \$4,545,645, or 38.7%.

**General Fund** - The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,071,980 while total fund balance increased by \$304,453 to \$3,079,125. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 33.0% of total general fund expenditures and transfers out.

## **General Fund Budgetary Highlights**

*Original budget compared to final budget.* There were no significant increases or decreases to the original budgeted appropriations or estimated revenues during the year. Minor adjustments were made in various functions to better allocate costs.

*Final budget compared to actual results.* The City had no expenditures in excess of the amounts appropriated during the year ended September 30, 2020.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2020 amounted to \$62,921,391 (net of accumulated depreciation). Of this amount, \$20,148,168 was for its governmental activities and \$42,773,223 was for its business-type activities. This investment in capital assets includes land and land improvements, construction in process, buildings and improvements, equipment and vehicles, and infrastructure.

Additional information on the City's capital assets can be found in note 6 to the financial statements.

### ***Long-term Debt***

Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund, enterprise fund, or internal service fund. Debt is classified as long-term if the debt matures in a period greater than one year. The City made principal payments of \$940,557 during the current fiscal year.

Additional information on the City's long-term debt can be found in note 7 to the financial statements.

## **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 a variety of mid-sized and small manufacturers, a hospital, schools, and service providers. The City is currently experiencing growth in marijuana industries, both in the medical and recreational sectors. The City has received recognition from the Michigan Municipal Executive Association for the City Manager of the Year along with awards for Public Works Project of the Year for Historical Restoration/Preservation from the Michigan Chapter of the American Public Works Association.

In 2012 the City 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. Annually, the status of these measurable goals is reported to the citizens and is incorporated into the planning and budgeting process.

The City Commission has adopted a conservative budget for 2020-2021. This includes a decrease in fund balance for all governmental funds of \$1,338,485 or 16.62 percent of total beginning fund balances, primarily due to street project funding, as well as maintenance of the City's current below-maximum tax levy. The City has maintained stable financial operations and strong general fund reserves which provide flexibility in the wake of uncertain economic times and legislative actions. During the pandemic, the City has remained flexible to meet the needs of citizens and customers while complying with recommended guidelines for workplace safety. Various State and Federal resources have assisted the City in funding in order to prepare for uncertain long-term impacts from the economic shutdown period.

The City is anticipating no increase in property tax revenue in this next budget cycle. The effect of decreased personal property tax is mitigated by state reimbursement to municipalities for a portion of the lost tax revenue via the Local Community Stabilization Authority. The property tax base consists of 49 percent residential, 19 percent industrial, 22 percent commercial and 10 percent personal. State revenue sharing is decreased slightly from the previous year. The PILOT, which is paid to the General Fund from the utility funds, is down 2.6 percent due to decreased utility revenue. Investment earnings are expected to remain low due to anticipated interest rates of return on fixed income investments.

The City's charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mills on the taxable value of each property. The City levied an operating millage of 10.4623 mills, which compares favorably to other like cities in southwest Michigan. For 2021, the inflation rate multiplier which is applied to taxable values is 1.014 percent compared to 1.9 percent in 2020.

### **Requests for Information**

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:

Treasurer's Office  
City of Sturgis  
130 N. Nottawa St.  
Sturgis, Michigan, 49091

## **Basic Financial Statements**

**City of Sturgis**  
**Statement of Net Position**  
**September 30, 2020**

	<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Investments	\$ 16,518,271	\$ 22,001,866	\$ 38,520,137	\$ 385,737
Accounts Receivable	118,765	4,070,937	4,189,702	70,266
Notes Receivable	--	80,908	80,908	--
Taxes Receivable	66,704	--	66,704	14,868
Special Assessments Receivable	13,037	--	13,037	--
Lease Receivable	--	--	--	370,000
Interest Receivable	4,653	260,168	264,821	--
Inventory	24,644	1,800,745	1,825,389	--
Prepaid Items	148,655	1,074,473	1,223,128	2,760
Due from Other Governmental Units	150,188	--	150,188	--
<b>Total Current Assets</b>	<b>17,044,917</b>	<b>29,289,097</b>	<b>46,334,014</b>	<b>843,631</b>
<i>Noncurrent Assets</i>				
Restricted Assets	--	184,446	184,446	--
Long-term Notes Receivable	--	1,700,000	1,700,000	--
Long-term Lease Receivable	--	--	--	7,140,000
Net Pension Asset	74,735	49,823	124,558	--
Capital Assets not being Depreciated	1,140,802	1,888,937	3,029,739	68,306
Capital Assets being Depreciated	19,007,366	40,884,286	59,891,652	78,790
<b>Total Assets</b>	<b>37,267,820</b>	<b>73,996,589</b>	<b>111,264,409</b>	<b>8,130,727</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	57,295	38,197	95,492	--
OPEB Related	658,880	208,067	866,947	--
<b>Total Deferred Outflows of Resources</b>	<b>716,175</b>	<b>246,264</b>	<b>962,439</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	713,297	1,548,395	2,261,692	6,733
Accrued Expenses	269,324	391,647	660,971	1,058
Accrued Interest	--	35,813	35,813	167,824
Customer Deposits	2,513	252,163	254,676	--
Unearned Revenue	131,756	--	131,756	8,698
Current Portion of Long-term Debt	146,389	803,127	949,516	382,846
<b>Total Current Liabilities</b>	<b>1,263,279</b>	<b>3,031,145</b>	<b>4,294,424</b>	<b>567,159</b>
<i>Noncurrent Liabilities</i>				
Compensated Absences	690,420	277,000	967,420	--
Long-term Debt	960,474	6,827,505	7,787,979	8,907,464
Other Post-employment Benefits	804,330	254,000	1,058,330	--
<b>Total Liabilities</b>	<b>3,718,503</b>	<b>10,389,650</b>	<b>14,108,153</b>	<b>9,474,623</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	243,072	162,047	405,119	--
OPEB Related	1,254,949	396,301	1,651,250	--
Taxes Intended to Finance a Subsequent Year	2,315,479	--	2,315,479	118,186
<b>Total Deferred Inflows of Resources</b>	<b>3,813,500</b>	<b>558,348</b>	<b>4,371,848</b>	<b>118,186</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	19,041,305	35,142,591	54,183,896	68,306
<i>Restricted for:</i>				
Debt Service	--	62,285	62,285	--
Streets	3,425,260	--	3,425,260	--
Cemetery Trust	494,706	--	494,706	--
Nonexpendable Endowments	144,222	--	144,222	--
<i>Unrestricted</i>	7,346,499	28,089,979	35,436,478	(1,530,388)
<b>Total Net Position</b>	<b>\$ 30,451,992</b>	<b>\$ 63,294,855</b>	<b>\$ 93,746,847</b>	<b>\$ (1,462,082)</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Activities**  
**For the year Ended September 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 28,324	\$ --	\$ --	\$ --	\$ (28,324)	\$ --	\$ (28,324)	\$ --
General Government	1,643,966	1,370,333	316,110	--	42,477	--	42,477	--
Public Safety	4,280,021	210,424	5,645	--	(4,063,952)	--	(4,063,952)	--
Public Works	2,393,752	199,540	1,387,953	--	(806,259)	--	(806,259)	--
Health and Welfare	1,500	--	--	--	(1,500)	--	(1,500)	--
Recreation and Culture	1,967,920	549,282	220,827	--	(1,197,811)	--	(1,197,811)	--
Community and Economic Development	301,922	29,955	--	--	(271,967)	--	(271,967)	--
Interest on Long-term Debt	43,423	--	--	--	(43,423)	--	(43,423)	--
Total Governmental Activities	10,660,828	2,359,534	1,930,535	--	(6,370,759)	--	(6,370,759)	--
Business-type Activities:								
Electric	23,780,624	25,825,134	--	--	--	2,044,510	2,044,510	--
Sanitary Sewer	2,865,048	3,548,944	--	--	--	683,896	683,896	--
Water	1,743,632	1,714,086	--	--	--	(29,546)	(29,546)	--
Total Business-type Activities	28,389,304	31,088,164	--	--	--	2,698,860	2,698,860	--
Total Primary Government	\$ 39,050,132	\$ 33,447,698	\$ 1,930,535	\$ --	(6,370,759)	2,698,860	(3,671,899)	--
Component Units								
Brownfield Redevelopment Authority	\$ 121,595	\$ --	\$ --	\$ --	--	--	--	(121,595)
Local Development Finance Authority	--	--	--	--	--	--	--	--
Building Authority	302,113	302,363	--	--	--	--	--	250
Downtown Development Authority	99,856	25,352	--	--	--	--	--	(74,504)
Total Component Units	\$ 523,564	\$ 327,715	\$ --	\$ --	--	--	--	(195,849)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					3,470,447	--	3,470,447	262,861
Investment Income					213,956	441,308	655,264	764
State Sources					2,776,738	--	2,776,738	53,430
Payments in Lieu of Taxes					2,743,157	--	2,743,157	--
Gain on Sale of Assets					97,590	--	97,590	--
Other Revenue					207,745	833,970	1,041,715	--
Transfers					(138,040)	138,040	--	--
Total General Revenues and Transfers					9,371,593	1,413,318	10,784,911	317,055
Change in Net Position					3,000,834	4,112,178	7,113,012	121,206
Net Position at Beginning of Period					27,451,158	59,182,677	86,633,835	(1,583,288)
Net Position at End of Period					\$ 30,451,992	\$ 63,294,855	\$ 93,746,847	\$ (1,462,082)

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis  
Balance Sheet  
Governmental Funds  
September 30, 2020**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Investments	\$ 5,697,566	\$ 9,036,208	\$ 14,733,774
Accounts Receivable	20,614	13,705	34,319
Taxes Receivable	12,097	54,607	66,704
Special Assessments Receivable	--	13,037	13,037
Interest Receivable	4,653	--	4,653
Inventory	--	22,312	22,312
Prepaid Items	7,145	2,241	9,386
Due from Other Governmental Units	11,369	138,819	150,188
<i><b>Total Assets</b></i>	<b>\$ 5,753,444</b>	<b>\$ 9,280,929</b>	<b>\$ 15,034,373</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 142,608	\$ 477,395	\$ 620,003
Accrued Expenses	177,610	38,231	215,841
Customer Deposits	--	2,513	2,513
Unearned Revenue	51,659	80,097	131,756
<i><b>Total Liabilities</b></i>	371,877	598,236	970,113
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Intended to Finance a Subsequent Year	2,302,442	13,037	2,315,479
<i><b>Total Liabilities and Deferred Inflows of Resources</b></i>	2,674,319	611,273	3,285,592
<b>FUND BALANCE</b>			
Nonspendable	7,145	168,775	175,920
Restricted	--	3,919,966	3,919,966
Committed	--	4,545,645	4,545,645
Assigned	--	35,270	35,270
Unassigned	3,071,980	--	3,071,980
<i><b>Total Fund Balance</b></i>	3,079,125	8,669,656	11,748,781
<i><b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b></i>	<b>\$ 5,753,444</b>	<b>\$ 9,280,929</b>	<b>\$ 15,034,373</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**September 30, 2020**

Total Fund Balance - Governmental Funds	\$ 11,748,781
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.	3,115,264
General government capital assets of \$36,967,062, net of accumulated depreciation of \$18,543,630, are not financial resources and, accordingly, are not reported in the funds.	18,423,432
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(111,042)
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.	(690,420)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(1,400,399)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(633,624)
<b>Total Net Position - Governmental Activities</b>	<b>\$ <u>30,451,992</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the year Ended September 30, 2020**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property Taxes	\$ 2,518,563	\$ 951,884	\$ 3,470,447
Licenses and Permits	16,166	201,058	217,224
Federal Sources	316,010	30,000	346,010
State Sources	2,436,312	1,704,024	4,140,336
Charges for Services	219,302	669,857	889,159
Fines and Forfeits	14,791	--	14,791
Local Contributions	1,645	219,282	220,927
Payments in Lieu of Taxes	2,743,157	--	2,743,157
Administrative Reimbursement	1,119,240	--	1,119,240
Rental Income	9,923	109,197	119,120
Other	158,285	49,460	207,745
Investment Income	70,894	117,718	188,612
<b>Total Revenues</b>	<u>9,624,288</u>	<u>4,052,480</u>	<u>13,676,768</u>
<b>Expenditures</b>			
Legislative	38,779	--	38,779
General Government	1,261,602	301,549	1,563,151
Public Safety	4,527,032	132,170	4,659,202
Public Works	519,889	2,996,086	3,515,975
Health and Welfare	1,500	--	1,500
Recreation and Culture	742,711	1,284,749	2,027,460
Community and Economic Development	212,097	89,825	301,922
Debt Service - Principal	13,410	65,776	79,186
Debt Service - Interest	5,350	28,024	33,374
<b>Total Expenditures</b>	<u>7,322,370</u>	<u>4,898,179</u>	<u>12,220,549</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>2,301,918</u>	<u>(845,699)</u>	<u>1,456,219</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	--	2,018,997	2,018,997
Transfers Out	(1,997,465)	(159,572)	(2,157,037)
<b>Net Other Financing Sources (Uses)</b>	<u>(1,997,465)</u>	<u>1,859,425</u>	<u>(138,040)</u>
<b>Net Change in Fund Balance</b>	<u>304,453</u>	<u>1,013,726</u>	<u>1,318,179</u>
<b>Fund Balance at Beginning of Period</b>	<u>2,774,672</u>	<u>7,655,930</u>	<u>10,430,602</u>
<b>Fund Balance at End of Period</b>	<u>\$ 3,079,125</u>	<u>\$ 8,669,656</u>	<u>\$ 11,748,781</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the year Ended September 30, 2020**

Total Net Change in Fund Balances - Governmental Funds	\$ 1,318,179
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.	316,168
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$2,588,855 exceeds depreciation expense of \$1,752,725.	836,130
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year increase is to decrease net position.	(71,580)
The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.	64,715
The statement of activities reports changes to net OPEB liability and OPEB related deferrals as OPEB expense; however, the expenditures recorded on the governmental funds equals actual OPEB contributions.	458,036
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. In addition, amortization of bond premium are reductions in long-term debt in the government-wide financial statements.	79,186
<b>Changes in Net Position - Governmental Activities</b>	<b>\$ <u>3,000,834</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements



**City of Sturgis**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Funds</b>
	<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>	<b>Total Enterprise Funds</b>	
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and Investments	\$ 17,356,752	\$ 3,895,855	\$ 749,259	\$ 22,001,866	\$ 1,784,497
Accounts Receivable	3,485,883	389,842	195,212	4,070,937	84,446
Notes Receivable	80,908	--	--	80,908	--
Interest Receivable	260,168	--	--	260,168	--
Inventory	1,685,494	51,521	63,730	1,800,745	2,332
Prepaid Items	1,074,473	--	--	1,074,473	139,269
<b>Total Current Assets</b>	<b>23,943,678</b>	<b>4,337,218</b>	<b>1,008,201</b>	<b>29,289,097</b>	<b>2,010,544</b>
<i>Noncurrent Assets</i>					
Restricted Assets	75,446	109,000	--	184,446	--
Long-term Notes Receivable	1,700,000	--	--	1,700,000	--
Net Pension Asset	39,859	7,473	2,491	49,823	--
Capital Assets not being Depreciated	1,204,624	360,980	323,333	1,888,937	--
Capital Assets being Depreciated	20,300,116	15,008,388	5,575,782	40,884,286	1,724,736
Advances Due from Other Funds	321,369	--	--	321,369	--
<b>Total Assets</b>	<b>47,585,092</b>	<b>19,823,059</b>	<b>6,909,807</b>	<b>74,317,958</b>	<b>3,735,280</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension Related	30,557	5,730	1,910	38,197	--
OPEB Related	164,720	26,008	17,339	208,067	--
<b>Total Deferred Outflows of Resources</b>	<b>195,277</b>	<b>31,738</b>	<b>19,249</b>	<b>246,264</b>	<b>--</b>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	1,293,369	133,308	121,718	1,548,395	93,294
Accrued Expenses	351,304	21,013	19,330	391,647	53,483
Accrued Interest	29,523	3,145	3,145	35,813	--
Customer Deposits	252,163	--	--	252,163	--
Current Portion of Long-term Debt	192,327	535,400	75,400	803,127	65,811
<b>Total Current Liabilities</b>	<b>2,118,686</b>	<b>692,866</b>	<b>219,593</b>	<b>3,031,145</b>	<b>212,588</b>
<i>Noncurrent Liabilities</i>					
Compensated Absences	215,000	51,000	11,000	277,000	--
Long-term Debt	1,061,125	5,282,831	483,549	6,827,505	407,428
Other Post-employment Benefits	201,083	31,750	21,167	254,000	--
Advances Due To Other Funds	--	--	321,369	321,369	--
<b>Total Liabilities</b>	<b>3,595,894</b>	<b>6,058,447</b>	<b>1,056,678</b>	<b>10,711,019</b>	<b>620,016</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension Related	129,638	24,307	8,102	162,047	--
OPEB Related	313,738	49,538	33,025	396,301	--
<b>Total Deferred Inflows of Resources</b>	<b>443,376</b>	<b>73,845</b>	<b>41,127</b>	<b>558,348</b>	<b>--</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	20,251,288	9,551,137	5,340,166	35,142,591	1,251,497
<i>Restricted for:</i>					
Debt Service	62,285	--	--	62,285	--
<i>Unrestricted</i>	<u>23,427,526</u>	<u>4,171,368</u>	<u>491,085</u>	<u>28,089,979</u>	<u>1,863,767</u>
<b>Total Net Position</b>	<b>\$ 43,741,099</b>	<b>\$ 13,722,505</b>	<b>\$ 5,831,251</b>	<b>\$ 63,294,855</b>	<b>\$ 3,115,264</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the year Ended September 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>Operating Revenues</b>					
Charges for Services	\$ 25,723,917	\$ 3,547,352	\$ 1,711,786	\$ 30,983,055	\$ 4,532,474
<b>Total Operating Revenues</b>	<b>25,723,917</b>	<b>3,547,352</b>	<b>1,711,786</b>	<b>30,983,055</b>	<b>4,532,474</b>
<b>Operating Expenses</b>					
Material, Maintenance, and Other	17,028,651	874,469	731,206	18,634,326	445,747
General and Administrative	2,499,718	698,426	419,326	3,617,470	145,710
Payments in Lieu of Taxes	2,403,420	228,480	104,160	2,736,060	--
Depreciation	1,777,232	924,685	458,407	3,160,324	468,642
Insurance Premiums and Claims	--	--	--	--	3,269,092
<b>Total Operating Expenses</b>	<b>23,709,021</b>	<b>2,726,060</b>	<b>1,713,099</b>	<b>28,148,180</b>	<b>4,329,191</b>
<b>Operating Income (Loss)</b>	<b>2,014,896</b>	<b>821,292</b>	<b>(1,313)</b>	<b>2,834,875</b>	<b>203,283</b>
<b>Non-Operating Revenues (Expenses)</b>					
Investment Income	362,321	56,870	22,117	441,308	25,344
Gain on Sale of Assets	--	--	--	--	97,590
Rental Income	101,217	1,592	2,300	105,109	--
Other Revenue	737,338	51,303	45,329	833,970	--
Interest Expense	(71,603)	(138,988)	(30,533)	(241,124)	(10,049)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>1,129,273</b>	<b>(29,223)</b>	<b>39,213</b>	<b>1,139,263</b>	<b>112,885</b>
<b>Income Before Transfers</b>	<b>3,144,169</b>	<b>792,069</b>	<b>37,900</b>	<b>3,974,138</b>	<b>316,168</b>
Transfers In	80,040	58,000	--	138,040	--
<b>Change In Net Position</b>	<b>3,224,209</b>	<b>850,069</b>	<b>37,900</b>	<b>4,112,178</b>	<b>316,168</b>
<i>Net Position at Beginning of Period</i>	<i>40,516,890</i>	<i>12,872,436</i>	<i>5,793,351</i>	<i>59,182,677</i>	<i>2,799,096</i>
<b>Net Position at End of Period</b>	<b>\$ 43,741,099</b>	<b>\$ 13,722,505</b>	<b>\$ 5,831,251</b>	<b>\$ 63,294,855</b>	<b>\$ 3,115,264</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities</b>				
Cash Received from Interfund Services	\$ --	\$ --	\$ --	\$ 4,466,263
Cash Received from Customers and Users	25,560,409	3,506,509	1,678,886	--
Cash Payments to Employees and Suppliers	(24,015,192)	(1,796,410)	(1,171,847)	(3,844,151)
<b>Net Cash Provided by Operating Activities</b>	<b>1,545,217</b>	<b>1,710,099</b>	<b>507,039</b>	<b>622,112</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	(2,241,666)	(431,452)	(485,741)	(834,638)
Gain on Disposal of Capital Assets	--	--	--	97,590
Principal and Interest Paid on Long-term Debt	(264,179)	(669,500)	(106,043)	(77,358)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(2,505,845)</b>	<b>(1,100,952)</b>	<b>(591,784)</b>	<b>(814,406)</b>
<b>Cash Flows from Noncapital Financing Activities</b>				
Interfund Advances	153,873	--	(153,873)	--
Transfers In	80,040	58,000	--	--
Rental Income	101,217	1,592	2,300	--
Other Non-operating Revenue	737,338	51,303	45,329	--
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>1,072,468</b>	<b>110,895</b>	<b>(106,244)</b>	<b>--</b>
<b>Cash Flows from Investing Activities</b>				
Investment Income	362,321	56,870	22,117	25,344
Collection on Notes Receivable and Related Interest Receivable	(14,987)	--	--	--
Change in Restricted Assets	1,046	--	--	--
<b>Net Cash Provided by Investing Activities</b>	<b>348,380</b>	<b>56,870</b>	<b>22,117</b>	<b>25,344</b>
<b>Net Increase (Decrease) in Cash and Investments</b>	<b>460,220</b>	<b>776,912</b>	<b>(168,872)</b>	<b>(166,950)</b>
<b>Cash and Investments - Beginning of Year</b>	<b>16,896,532</b>	<b>3,118,943</b>	<b>918,131</b>	<b>1,951,447</b>
<b>Cash and Investments - End of Year</b>	<b>\$ 17,356,752</b>	<b>\$ 3,895,855</b>	<b>\$ 749,259</b>	<b>\$ 1,784,497</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating Income (Loss)	\$ 2,014,896	\$ 821,292	\$ (1,313)	\$ 2,834,875
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Depreciation Expense	1,777,232	924,685	458,407	468,642
<b>Changes in Assets, Liabilities, and Related Deferrals</b>				
Accounts Receivable	(210,113)	(42,338)	(34,395)	(66,211)
Interest Receivable	42,858	1,495	1,495	--
Inventory	(251,876)	1,023	(7,038)	--
Prepaid Items	(1,074,473)	--	--	124,213
Accounts Payable	(586,546)	15,624	97,615	(109,131)
Accrued Expenses	(52,483)	(130)	4,479	1,316
Customer Deposits	3,747	--	--	--
Compensated Absences	31,000	13,000	2,000	--
Net Pension Asset/Liability	(271,271)	(50,863)	(16,954)	--
Pension Related Deferred Outflows and Inflows of Resources	236,754	44,390	14,796	--
Other Post-Employment Benefits Liability	(127,170)	(20,079)	(13,386)	--
OPEB Related Deferred Outflows and Inflows of Resources	12,662	2,000	1,333	--
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,545,217</b>	<b>\$ 1,710,099</b>	<b>\$ 507,039</b>	<b>\$ 622,112</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2020**

	<b>Pension and Benefit Trust</b>		<b>Agency</b>
	<b>Other Postemployment Benefit Trust</b>	<b>Pension Trust</b>	<b>Agency</b>
<b>ASSETS</b>			
Cash and Investments	\$ 8,508,140	\$ 38,854,784	\$ 581,826
Interest Receivable	--	50,903	--
Due from Other Governmental Units	--	116,025	--
<b><i>Total Assets</i></b>	<b>8,508,140</b>	<b>39,021,712</b>	<b>581,826</b>
<b>LIABILITIES</b>			
Accounts Payable	2,250	--	--
Due to Other Governmental Units	--	127,609	581,826
<b><i>Total Liabilities</i></b>	<b>2,250</b>	<b>127,609</b>	<b>\$ 581,826</b>
<b>NET POSITION</b>			
Held in Trust	<b>\$ 8,505,890</b>	<b>\$ 38,894,103</b>	

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the year Ended September 30, 2020**

	<b>Other Postemployment Benefit Trust</b>	<b>Pension Trust</b>
<b>Additions</b>		
Employer	\$ 390,840	\$ 494,537
Employee/Retiree	130,972	434,280
Investment Income	474,318	2,450,979
Other Revenue	--	768,479
<b>Total Additions</b>	<b>996,130</b>	<b>4,148,275</b>
<b>Deductions</b>		
Benefits	775,118	1,947,418
Refunds	--	25,533
Administrative Expense	9,750	261,014
<b>Total Deductions</b>	<b>784,868</b>	<b>2,233,965</b>
<b>Change in Net Position</b>	<b>211,262</b>	<b>1,914,310</b>
<i>Net Position at Beginning of Period</i>	8,294,628	36,979,793
<b>Net Position at End of Period</b>	<b>\$ 8,505,890</b>	<b>\$ 38,894,103</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Combining Statement of Net Position**  
**Component Units**  
**September 30, 2020**

	<b>Brownfield Redevelopment Authority</b>	<b>Local Development Finance Authority</b>	<b>Building Authority</b>	<b>Downtown Development Authority</b>	<b>Total Component Units</b>
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and Investments	\$ 137,460	\$ 120,259	\$ 2,819	\$ 125,199	\$ 385,737
Accounts Receivable	--	--	--	1,948	1,948
Taxes Receivable	--	2,062	--	12,806	14,868
Lease Receivable	--	--	370,000	--	370,000
Prepaid Items	--	--	--	2,760	2,760
<b>Total Current Assets</b>	<b>137,460</b>	<b>122,321</b>	<b>372,819</b>	<b>142,713</b>	<b>775,313</b>
<i>Noncurrent Assets</i>					
Long-term Lease Receivable	--	--	7,140,000	--	7,140,000
Capital Assets not being Depreciated	--	68,306	--	--	68,306
Capital Assets being Depreciated	--	--	--	78,790	78,790
<b>Total Assets</b>	<b>137,460</b>	<b>190,627</b>	<b>7,512,819</b>	<b>221,503</b>	<b>8,062,409</b>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	--	--	--	6,733	6,733
Accrued Expenses	--	--	--	1,058	1,058
Accrued Interest	167,824	--	--	--	167,824
Unearned Revenue	--	--	--	8,698	8,698
Current Portion of Long-term Debt	--	--	370,000	12,846	382,846
<b>Total Current Liabilities</b>	<b>167,824</b>	<b>--</b>	<b>370,000</b>	<b>29,335</b>	<b>567,159</b>
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,700,000	--	7,140,000	67,464	8,907,464
<b>Total Liabilities</b>	<b>1,867,824</b>	<b>--</b>	<b>7,510,000</b>	<b>96,799</b>	<b>9,474,623</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Taxes Intended to Finance a Subsequent Year	--	2,062	--	47,806	49,868
<b>Total Deferred Inflows of Resources</b>	<b>--</b>	<b>2,062</b>	<b>--</b>	<b>47,806</b>	<b>49,868</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	--	68,306	--	--	68,306
<i>Unrestricted</i>	(1,730,364)	120,259	2,819	76,898	(1,530,388)
<b>Total Net Position</b>	<b>\$ (1,730,364)</b>	<b>\$ 188,565</b>	<b>\$ 2,819</b>	<b>\$ 76,898</b>	<b>\$ (1,462,082)</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Sturgis**  
**Combining Statement of Activities**  
**Component Units**  
**For the year Ended September 30, 2020**

	<b>Brownfield Redevelopment Authority</b>	<b>Local Development Finance Authority</b>	<b>Building Authority</b>	<b>Downtown Development Authority</b>	<b>Total Component Units</b>
<b>Expenses</b>					
Community and Economic Development	\$ 78,633	\$ --	\$ --	\$ 97,511	\$ 176,144
Interest on Long-term Debt	42,962	--	302,113	2,345	347,420
<b>Total Expenses</b>	<b>121,595</b>	<b>--</b>	<b>302,113</b>	<b>99,856</b>	<b>523,564</b>
<b>Program Revenues</b>					
Charges for services	--	--	302,363	25,352	327,715
<b>Total Program Revenues</b>	<b>--</b>	<b>--</b>	<b>302,363</b>	<b>25,352</b>	<b>327,715</b>
<b>Net Program Revenues (Expenses)</b>	<b>(121,595)</b>	<b>--</b>	<b>250</b>	<b>(74,504)</b>	<b>(195,849)</b>
<b>General Revenue</b>					
Property Taxes	210,062	5,466	--	47,333	262,861
State Sources	--	50,612	--	2,818	53,430
Investment Income	--	552	--	212	764
<b>Total General Revenues</b>	<b>210,062</b>	<b>56,630</b>	<b>--</b>	<b>50,363</b>	<b>317,055</b>
<b>Change in Net Position</b>	<b>88,467</b>	<b>56,630</b>	<b>250</b>	<b>(24,141)</b>	<b>121,206</b>
<i>Net Position at Beginning of Period</i>	<i>(1,818,831)</i>	<i>131,935</i>	<i>2,569</i>	<i>101,039</i>	<i>(1,583,288)</i>
<b>Net Position at End of Period</b>	<b>\$ (1,730,364)</b>	<b>\$ 188,565</b>	<b>\$ 2,819</b>	<b>\$ 76,898</b>	<b>\$ (1,462,082)</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

## **Notes to the Financial Statements**



# City of Sturgis

## Notes to the Financial Statements

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sturgis (the “City”) 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.

#### ***Discretely Presented Component Units***

The *Downtown Development Authority* (the “DDA”) 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. The component unit is audited separately from the City and complete financial statements may be obtained from the city controller’s office. Accordingly, the City has elected to omit substantially all note disclosures related to the DDA in these financial statements. The DDA’s office contact information is as follows:

130 N. Nottawa  
Sturgis, Michigan 49091.

The *Brownfield Redevelopment Authority* (the “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

## City of Sturgis

### Notes to the Financial Statements

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financing, federal grants, state grants, State loans, and City of Sturgis loans and has named the City of Sturgis as its fiscal agent. Members of the Authority are approved by the city commission.

The *Local Development Finance Authority's* (the "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 LDFA are approved by the city commission.

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.

#### ***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.

## City of Sturgis

### Notes to the Financial Statements

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#### ***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. Nonmajor 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:

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.

#### ***Enterprise Funds***

The *electric fund* accounts for user charges and for operating expenses and debt service of the City's electric utility system.

The *water fund* accounts for user charges and for operating expenses and debt service of the City's water system.

The *sewer fund* accounts for user charges and for operating expenses and debt service of the City's sewer system.

## City of Sturgis

### Notes to the Financial Statements

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The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

#### ***Governmental Funds***

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

#### ***Revenue Recognition***

"Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

#### ***Expenditure Recognition***

The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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

#### ***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 the Financial Statements

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#### ***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.

#### ***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.

## City of Sturgis

### Notes to the Financial Statements

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#### ***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.
- 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 the

## City of Sturgis

### Notes to the Financial Statements

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current year, 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***

Certain City funds including the pension trust fund, cemetery trust fund, and the 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, 2020, was \$10.4623 per \$1,000 of taxable valuation. The tax rate to finance City street/sidewalk improvements for the year ended September 30, 2020, was \$3.000 per \$1,000 taxable valuation. The 2019 taxable value of the City was \$229,035,842. Receivables consist of amounts due from the state and federal government for various payments and grants and receivables for charges for services provided to local governmental units, accounts receivable related to charges for services, interest receivable, and other amounts owed to the City at year-end.

## City of Sturgis

### Notes to the Financial Statements

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#### ***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 acquisition 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>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
Office Furniture and Equipment	3 - 7

#### ***Unearned Revenue***

Unearned revenue represents monies that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as liabilities.



## City of Sturgis

### Notes to the Financial Statements

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#### ***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 reports deferred outflows of resources for the difference between projected and actual investment earnings, changes in assumptions, and the difference between expected and actual experience provided in its pension plan and other postemployment benefits plan.

#### ***Other Postemployment Benefits***

The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Care Plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***Pensions***

For purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***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

## City of Sturgis

### Notes to the Financial Statements

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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 receivables and from property taxes levied and collected for next fiscal year's operation. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also reports deferred inflows of resources for the difference between projected and actual investment earnings, changes in assumptions, and the difference between expected and actual experience provided in its pension plan and other postemployment benefits plan.

#### ***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### ***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider

## City of Sturgis

### Notes to the Financial Statements

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restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Members of the City Commission is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Members of the City Commission is authorized to assign fund balance. The Members of the City Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Members of the City Commission. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, the unassigned classification is used only to report a deficit.

#### ***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

## City of Sturgis

### Notes to the Financial Statements

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financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Subsequent Events***

Subsequent events have been evaluated through April 30, 2021. The City will be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders.

Management is in the process of determining the significance that the outbreak will have on the City's upcoming budget. Charges for services, state revenue sharing, and grant revenues are expected to decrease during fiscal year 2021. Further, expenditures for personal protective equipment will be incurred during fiscal year 2021. Actual changes in both revenues and expenditures because of COVID-19 remain highly uncertain.

#### **NOTE 2 - 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, 2020 the City incurred no significant expenditures in excess of the amounts appropriated at the legal level of budgetary control.

#### ***Net Position Deficits***

The Brownfield Redevelopment Authority had an unrestricted deficit net position of \$(1,730,364).

# City of Sturgis

## Notes to the Financial Statements

### NOTE 3 - 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:

	<b>Primary Government</b>	<b>Component Units</b>	<b>Total</b>
<b>Statement of Net Position</b>			
Cash and Investments	\$ 38,520,137	\$ 385,737	\$ 38,905,874
<b>Statement of Fiduciary Net Position</b>			
Cash and Investments	47,944,750	-	47,944,750
<b>Total Deposits and Investments</b>	<u>\$ 86,464,887</u>	<u>\$ 385,737</u>	<u>\$ 86,850,624</u>
<i>Less Units Separately Audited</i>			
Downtown Development Authority	-	(125,199)	(125,199)
<b>Deposits and Investments Managed by the City</b>	<u>\$ 86,464,887</u>	<u>\$ 260,538</u>	<u>\$ 86,725,425</u>
	Checking and Savings Accounts		\$ 7,281,053
	Certificates of Deposit		750,060
	Investments		78,690,812
	Cash on Hand		3,500
	<b>Total Deposits and Investments</b>		<u>\$ 86,725,425</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 the Financial Statements

As of September 30, 2020, the maturities and credit quality rating of debt securities are as follows:

	Fair Value	No Maturity or < Than 1	1 - 5	6 - 10	> Than 10	Fair Value Level	S&P Rating
<b>Primary Government:</b>							
Mutual Funds	\$ 492,539	\$ 492,539	\$ -	\$ -	\$ -	II	Not Rated
MI Class (Pooled Investments)	4,729,750	4,729,750	-	-	-	II	AAAm
Bank Deposit Program	14,520	14,520	-	-	-	II	Not Rated
U.S. Government Agencies	25,911,588	11,728,310	14,183,278	-	-	II	\$16,677,191 AA+, \$9,234,397 Not Rated
Assets in Community Foundation	179,491	179,491	-	-	-	II	Not Rated
<b>Total Primary Government:</b>	<u>31,327,888</u>	<u>17,144,610</u>	<u>14,183,278</u>	<u>-</u>	<u>-</u>		
<b>Pension Trust Fund:</b>							
Open END MF - Fixed Inc. Tax	4,533,623	4,533,623	-	-	-	I	Not Rated
U.S. Government Agencies	3,413,293	-	396,667	327,156	2,689,470	I	AAA-AA
Corporate and Other Bonds and Notes	2,843,024	103,121	257,289	1,690,538	792,076	I	AAA-AA
Bank Deposit Program	709,457	709,457	-	-	-	I	Not Rated
Common and Preferred Stocks	27,355,387	27,355,387	-	-	-	I	N/A
<b>Total Pension Trust Fund:</b>	<u>38,854,784</u>	<u>32,701,588</u>	<u>653,956</u>	<u>2,017,694</u>	<u>3,481,546</u>		
<b>OPEB Trust Fund:</b>							
MERS Established Market Fund	8,508,140	8,508,140	-	-	-	II	Not Rated
<b>Total Investments:</b>	<u>\$ 78,690,812</u>	<u>\$ 58,354,338</u>	<u>\$ 14,837,234</u>	<u>\$ 2,017,694</u>	<u>\$ 3,481,546</u>		

### 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, 2020, the City had \$11,307,316 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.

## City of Sturgis

### Notes to the Financial Statements

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#### ***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.

#### ***Fair Value Measurement***

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City has the following recurring fair value measurements as of September 30, 2020:

#### ***Primary Government***

- U.S. Government Agency debt obligations of \$25,911,588 are valued using other observable inputs (level 2 inputs).
- Mutual funds of \$492,539 are valued using other observable inputs (level 2 inputs).
- Bank Deposit Program of \$14,520 are valued using other observable inputs (level 2 inputs).
- The Michigan Class Pool of \$4,729,750 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

## City of Sturgis

### Notes to the Financial Statements

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#### ***Permanent Fund***

- Deposits held with the Sturgis Area Community Foundation, with a balance of \$179,491, are valued using other observable inputs (level 2 inputs).

#### ***Pension Trust Fund***

- U.S. Government Agency debt obligations of \$3,413,293 and Corporate and Other Bonds and Notes of \$2,843,024 and Common and Preferred Equities of \$27,355,387 are valued using quoted market prices (Level 1 inputs).
- The Open ENDMF of \$4,533,623 and Morgan Stanley Bank Deposit Program of \$709,457 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

#### ***OPEB Trust Fund***

- The MERS Established Market Fund of \$8,508,140 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

#### ***Beneficial Interest in Assets Held by Foundation***

Amounts shown as beneficial interest in assets held by foundation represent monies placed with the Sturgis Area Community Foundation (the “Foundation”) by the City, specifying itself as the beneficiary. The City and the Foundation are unrelated entities. The City has the right, at any time, to receive from the Foundation, all, or a portion, of the balance of accumulated investment return on monies held by the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation, with a corresponding Liability, agency non-endowed funds. The City reports this asset at the present value of future payments to be received. The portion of the asset not considered expendable has been reported in the permanent fund.

#### **NOTE 4 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE**

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.



# City of Sturgis

## Notes to the Financial Statements

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 Revenue</u>	<u>Unearned Revenue</u>	<u>Total</u>
<b><i>Primary Government</i></b>			
Property taxes levied and collected for next fiscal year's operation	\$ 2,302,442	\$ -	\$ 2,302,442
Special assessments receivable not collected within 60 days	13,037	-	-
Customer deposits for future services / events	-	131,756	131,756
<b><i>Total Primary Government</i></b>	<u>\$ 2,315,479</u>	<u>\$ 131,756</u>	<u>\$ 2,447,235</u>
<b><i>Component Units</i></b>			
Property taxes levied and collected for next fiscal year's operation	\$ 2,062	\$ -	\$ 2,062
Accounts receivable not collected within 60 days	68,318	-	68,318
<b><i>Total Component Units</i></b>	<u>\$ 70,380</u>	<u>\$ -</u>	<u>\$ 70,380</u>

### NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables, at September 30, 2020, consisted of an advance from the electric fund to the water fund in the amount of \$321,369.

The due from/to other fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of internal service funds.

Transfers consisted of the following for the year ended September 30, 2020:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Electric	General	\$ 80,040
Sanitary Sewer	General	58,000
Nonmajor Governmental Funds	General	1,859,425
Nonmajor Governmental Funds	Nonmajor Governmental Funds	159,572

# City of Sturgis

## Notes to the Financial Statements

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.

### NOTE 6 - CAPITAL ASSETS

Capital assets activity of the primary government for the year ended September 30, 2020 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 720,705	\$ -	\$ -	\$ 720,705
Construction in Process	370,673	420,097	(370,673)	420,097
<i>Subtotal</i>	<u>1,091,378</u>	<u>420,097</u>	<u>(370,673)</u>	<u>1,140,802</u>
<b>Capital Assets being Depreciated</b>				
Infrastructure	13,452,285	1,893,970	-	15,346,255
Land Improvements	8,053,919	28,890	-	8,082,809
Buildings and Improvements	10,180,714	156,811	-	10,337,525
Machinery and Equipment	2,965,540	780,836	(204,562)	3,541,814
Vehicles	4,704,297	513,564	(141,502)	5,076,359
Office Furniture and Equipment	74,841	-	-	74,841
<i>Subtotal</i>	<u>39,431,596</u>	<u>3,374,071</u>	<u>(346,064)</u>	<u>42,459,603</u>
<b>Less Accumulated Depreciation</b>				
Infrastructure	5,861,699	908,857	-	6,770,556
Land Improvements	3,485,168	387,090	-	3,872,258
Buildings and Improvements	6,207,991	331,768	-	6,539,759
Machinery and Equipment	2,238,989	269,650	(204,562)	2,304,077
Vehicles	3,708,246	324,002	(141,502)	3,890,746
Office Furniture and Equipment	74,841	-	-	74,841
<i>Subtotal</i>	<u>21,576,934</u>	<u>2,221,367</u>	<u>(346,064)</u>	<u>23,452,237</u>
<b>Capital Assets being Depreciated, Net</b>	<u>17,854,662</u>	<u>1,152,704</u>	<u>-</u>	<u>19,007,366</u>
<b>Capital Assets, Net</b>	<u>\$ 18,946,040</u>	<u>\$ 1,572,801</u>	<u>\$ (370,673)</u>	<u>\$ 20,148,168</u>

# City of Sturgis

## Notes to the Financial Statements

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Capital Assets not being Depreciated</b>				
Land	\$ 736,739	\$ -	\$ -	\$ 736,739
Construction in Process	1,973,550	4,145,331	(4,966,683)	1,152,198
<i>Subtotal</i>	<u>2,710,289</u>	<u>4,145,331</u>	<u>(4,966,683)</u>	<u>1,888,937</u>
<b>Capital Assets being Depreciated</b>				
Land Improvements	4,227,612	15,900	-	4,243,512
Building, Improvements, and System	114,807,419	3,964,311	-	118,771,730
Machinery and Equipment	613,271	-	-	613,271
Office Furniture and Equipment	95,789	-	-	95,789
<i>Subtotal</i>	<u>119,744,091</u>	<u>3,980,211</u>	<u>-</u>	<u>123,724,302</u>
<b>Less Accumulated Depreciation</b>				
Land Improvements	3,664,891	108,365	-	3,773,256
Building, Improvements, and System	75,506,782	3,037,408	-	78,544,190
Machinery and Equipment	412,230	14,551	-	426,781
Office Furniture and Equipment	95,789	-	-	95,789
<i>Subtotal</i>	<u>79,679,692</u>	<u>3,160,324</u>	<u>-</u>	<u>82,840,016</u>
<b>Capital Assets being Depreciated, Net</b>	<u>40,064,399</u>	<u>819,887</u>	<u>-</u>	<u>40,884,286</u>
<b>Capital Assets, Net</b>	<u>\$ 42,774,688</u>	<u>\$ 4,965,218</u>	<u>\$ (4,966,683)</u>	<u>\$ 42,773,223</u>

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

### Governmental Activities

General Government	\$ 107,209
Public Safety	118,835
Public Works	1,047,441
Recreation and Culture	479,240
Internal Service Funds	468,642
	<u>\$ 2,221,367</u>

### Business-type Activities

Electric	\$ 1,777,232
Sanitary Sewer	924,685
Water	458,407
	<u>\$ 3,160,324</u>

The Local Development Finance Authority, a discretely presented component unit, had \$68,306 in capital assets not being depreciated during the year ended September 30, 2020.

# City of Sturgis

## Notes to the Financial Statements

### NOTE 7 - LONG-TERM DEBT

Following is a summary of governmental activities long-term debt transactions for the year ended September 30, 2020:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Long-term Debt</b>					
2010 Capital Improvement Bonds	\$ 501,726	\$ -	\$ (65,936)	\$ 435,790	\$ 66,873
Fire Truck Note Payable	128,486	-	(34,258)	94,228	33,165
Fire Vehicle Note Payable	412,060	-	(33,049)	379,011	32,646
Gym Equipment Note Payable	211,084	-	(13,250)	197,834	13,705
<b>Total Long-term Debt</b>	<u>1,253,356</u>	<u>-</u>	<u>(146,493)</u>	<u>1,106,863</u>	<u>146,389</u>
Compensated Absences	618,840	475,314	(403,734)	690,420	-
<b>Total Long-term Obligations</b>	<u>\$ 1,872,196</u>	<u>\$ 475,314</u>	<u>\$ (550,227)</u>	<u>\$ 1,797,283</u>	<u>\$ 146,389</u>

Long-term debt payables at September 30, 2020 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% \$ 435,790

Note payable to 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 \$121,644 94,228

Note payable to Bank in the amount of \$516,334, monthly payment of \$3,161 including interest at 1.23%, final payment due May 12, 2031, secured by Fire Truck with a net book value of \$509,055 379,011

Note payable to Bank in the amount of \$237,000, monthly payment of \$1,658 including interest at 3.19%, final payment due October 1, 2032, secured by gym equipment with a net book value of \$225,150 197,834

Total Governmental Activities  
Long-term Debt \$ 1,106,863

# City of Sturgis

## Notes to the Financial Statements

Following is a summary of business-type activities long-term debt transactions for the year ended September 30, 2020:

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Long-term Debt</b>					
2010 Capital Improvement Bonds	\$ 1,748,274	\$ -	\$ (229,064)	\$ 1,519,210	\$ 233,127
2007 State/Clean Water Revolving Fund Loan Payable	481,070	-	(55,000)	426,070	55,000
2007 State/Clean Water Revolving Fund Loan Payable	1,280,587	-	(140,000)	1,140,587	140,000
2008 Sanitary Sewer System Revenue Bonds	2,627,172	-	(235,000)	2,392,172	240,000
2013A State/Clean Water Revolving Fund Loan Payable	1,955,919	-	(115,000)	1,840,919	115,000
2013B State/Clean Water Revolving Fund Loan Payable	331,674	-	(20,000)	311,674	20,000
<b>Total Long-term Debt</b>	<b>8,424,696</b>	<b>-</b>	<b>(794,064)</b>	<b>7,630,632</b>	<b>803,127</b>
Compensated Absences	231,000	288,534	(242,534)	277,000	-
<b>Total Long-term Obligations</b>	<b>\$ 8,655,696</b>	<b>\$ 288,534</b>	<b>\$ (1,036,598)</b>	<b>\$ 7,907,632</b>	<b>\$ 803,127</b>

Long-term debt payables at September 30, 2020, consisted of the following individual issues:

### 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%	\$ 1,519,210
\$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%	426,070
\$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 \$145,587, including interest paid semi-annually at 1.625%	1,140,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$292,172 plus interest at 2.50%, final payment due October 1, 2029	2,392,172
\$2,486,274 2013 State/Clean Water Revolving Fund loan payable in semi-annual installments ranging from \$105,000 to \$150,919 plus interest at 2.00%, final payment due April 1, 2034	1,840,919
\$476,674 2013 State/Clean Water Revolving Fund loan payable in semi-annual installments ranging from	

# City of Sturgis

## Notes to the Financial Statements

\$15,000 to \$26,674 plus interest at 2.50%, final  
payment due April 1, 2034

311,674

Total Business-type Activities Long-term Debt

\$ 7,630,632

### Debt Service Requirements

The annual requirements to service all debt outstanding for the primary government as of September 30, 2020 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 146,389	\$ 32,864	\$ 179,253	\$ 794,218	\$ 233,036	\$ 1,027,254
2022	149,699	30,659	180,358	803,103	209,645	1,012,748
2023	144,915	24,394	169,309	825,873	185,141	1,011,014
2024	122,163	18,811	140,974	843,643	159,283	1,002,926
2025	125,831	13,400	139,231	856,414	131,866	988,280
2026-2030	351,382	26,850	378,232	3,458,852	293,368	3,752,220
2031-2034	66,484	443	66,927	842,593	44,535	887,128
Totals	<u>\$ 1,106,863</u>	<u>\$ 147,421</u>	<u>\$ 1,254,284</u>	<u>\$ 8,424,696</u>	<u>\$ 1,256,874</u>	<u>\$ 9,681,570</u>

### Discretely Presented Component Units

#### Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Brownfield Redevelopment Authority</b>					
Michigan Department of Environmental Quality Note Payable	\$ 67,008	\$ -	\$ (67,008)	\$ -	\$ -
City of Sturgis - Electric Fund	1,700,000	-	-	1,700,000	-
<b>Total Long-term Debt</b>	<u>\$ 1,767,008</u>	<u>\$ -</u>	<u>\$ (67,008)</u>	<u>\$ 1,700,000</u>	<u>\$ -</u>

Long-term debt payable at September 30, 2020, consisted of the following individual issues:

Note payable to City of Sturgis - Electric Fund in the amount (not to exceed) \$1,700,000, deferred payments until June 1, 2021, thirty years maximum, annual payment, interest accrues at 2.468%, payments apply to principal until paid, interest balance accrues and will be paid last per Development Agreement and Brownfield Plan \$1,700,000

## City of Sturgis

### Notes to the Financial Statements

#### Debt Service Requirements

The note payable to the electric fund is unscheduled.

#### Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2020:

<b>Building Authority</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Series 2014 Refunding Bonds	\$ 7,860,000	\$ -	\$ (350,000)	\$ 7,510,000	\$ 370,000

Long-term debt payable at September 30, 2020, consisted of the following individual issue:

Sturgis Building Authority Series 2014 Refunding Bonds, payable annually beginning October 1, 2017 and ending October 1, 2034, ranging from \$290,000 to \$745,000, including interest paid semiannually with rates ranging from 2.00% to 4.25%	<u>\$ 7,510,000</u>
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#### Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2020 including both principal and interest, are as follows:

	<b>Brownfield Redevelopment Authority</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 370,000	\$ 291,613	\$ 661,613
2022	385,000	280,513	665,513
2023	410,000	268,963	678,963
2024	435,000	256,663	691,663
2025	455,000	239,263	694,263
2026-2030	2,700,000	897,640	3,597,640
2031-2034	2,755,000	284,583	3,039,583
Totals	<u>\$ 7,510,000</u>	<u>\$ 2,519,238</u>	<u>\$ 10,029,238</u>

## City of Sturgis

### Notes to the Financial Statements

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#### NOTE 8 - NOTES RECEIVABLE

At September 30, 2020, the electric fund reflected the following notes receivable:

Note receivable from Sturgis Hospital, Inc. collectible in monthly installments of \$2,247, plus interest at 6%, due in full September 30, 2023	\$ 80,908
Note receivable from Brownfield Development Authority - component unit collectible beginning in 2021 with interest accruing at 2.468%, due in full within thirty years	<u>1,700,000</u>
Total	<u>\$ 1,780,908</u>

#### NOTE 9 - LEASE RECEIVABLE

##### *Discretely Presented Component Unit*

##### **Building Authority**

At September 30, 2020, 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>\$ 7,510,000</u>
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#### NOTE 10 - RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the



## City of Sturgis

### Notes to the Financial Statements

specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

#### ***Employee Health Benefits***

The City has established a self-insured health insurance plan which is accounted for in an Internal Service Fund. Full-time, regular employees of the City, as well as qualifying dependents, are eligible to participate in the insurance plan. The plan is administered under a contractual agreement with Blue Cross and Blue Shield of Michigan (BCBSM) (Health, Dental, Vision and RX).

The City is responsible for paying the medical, RX, dental, and vision claim amounts which are in excess of the employee's deductible and/or co-pay amounts. Stop-loss insurance coverage limits claim expense to \$65,000 per contract annually including a 24-month run-out period for claims incurred prior to termination of coverage.

The insurance arrangements are renegotiated annually. Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include a provision for claims that have been incurred but not reported (IBNR's). The provision is based upon historical trends. Claims liabilities are estimated based on actual claims filed subsequent to year end.

Changes in the estimated balance of claim liabilities during the current year ended September 30, 2020 and the prior year was as follows:

	<b>2020</b>	<b>2019</b>
<b>Estimated Claims Liability, Beginning of Year</b>	\$ 50,000	\$ 277,300
Estimated Claims Incurred, including Changes in Estimates	2,168,070	1,837,406
Applied Stop-loss	(894,500)	(587,045)
Claim Payments	(1,273,570)	(1,477,661)
<b>Estimated Claims Liability, End of Year</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>

#### **NOTE 11 - DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 that is administered by ICMA Retirement Corporation. The plan, available to all City employees, permits them to defer a portion of their payroll until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Participants may contribute any amount allowed by the plan. The City will match the employee contribution at different percentages based on the employee group. In fiscal year 2020, the City contributed \$143,015 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

# City of Sturgis

## Notes to the Financial Statements

### Note 12 - DEFINED BENEFIT PENSION PLAN

#### *Plan Description*

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all City unionized employees who normally work 1,950 hours or more a year, and all other full time City employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries.

#### *Benefits Provided*

Retirement benefits for employees are as follows:

<u>Eligibility</u>	<u>Amount</u>
<b>Regular Retirement (no reduction factor for age)</b>	
General (hired prior to 1/1/2016) and Electric Union (hired prior to 3/1/15): Any age with 25 years of service.	<u>Total service multiplied by:</u> General - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
General (hired on or after 1/1/2016) and Electric Union (hired on or after 3/1/15): Age 55 with 25 years of service.	Electrical - 2.0% of FAC.
General and Electric: Age 60 with 10 years of service or 65 with 5 years of service.	
Police (hired before 10/1/2017) and Fire (hired before 10/11/2017): 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.
Police (hired after 10/1/2017) and Fire (hired after 10/11/2017): Age 55 with 25 years of service, or at age 60 with 10 years.	
Type of Final Average Compensation.	Fire: Highest 3 consecutive years out of last 5.  Others: Highest 5 consecutive years out of last 10.

# City of Sturgis

## Notes to the Financial Statements

<b>Eligibility</b>	<b>Amount</b>
<b>Deferred Retirement</b>	
Electric (hired prior to 3/1/2008) and Non-Union (hired prior to 1/1/2009): 5 years of service.	Computed as a regular retirement but based upon service and final average compensation at termination date. Benefit begins at normal retirement age.
Electric (hired on or after 3/1/2008 and prior to 3/1/2015) and Non-Union (hired on or after 1/1/2009 and prior to 1/1/2016): 8 years of service.	
Electric (hired on or after 3/1/2015) and Non-Union (hired on or after 1/1/2016): 10 years of service.	
Fire (hired before 10/11/2017): 8 years of service, 5 years of service if retiring at age 60.	
Fire (hired after 10/11/2017): 10 years of service.	
Others: 10 years of service.	
<b>Non-Duty Death Before Retirement</b>	
10 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.
<b>Duty Death Before Retirement</b>	
No age or service requirements.	Upon termination of Worker's Compensation, benefits equal to the Worker's Compensation payments to the spouse, children under age 18 and dependent parents.

# City of Sturgis

## Notes to the Financial Statements

Eligibility	Amount
<b>Non-Duty Disability Retirement</b>	
10 years of service.	Computed as a regular retirement. Maximum Amount - Final average compensation less Social Security amount, if any.
<b>Duty Disability Retirement</b>	
No age or service requirements.	Computed as regular retirement. Upon attaining age 65 and termination of Worker's Compensation, additional service credit is granted for period in receipt of Worker's Compensation, and benefit is recomputed. Minimum amount - 17% of final average compensation less Social Security amount. Maximum amount - Final average compensation less Worker's Compensation less Social Security amount.
<b>Member Contributions</b>	
General	1.80% of gross pension wages.
Electric	4.55% of gross pension wages.
Police	3.01% of gross pension wages.
Fire	4.30% of gross pension wages.
Required contributions in excess of the Employer Cap are paid by active employees.	
Contribution balances are credited with 3.0% interest annually.	
<b>Cap on Employer Contributions</b>	
General (hired on or after 12/31/2012)	10.0% of gross pension wages.
Electric (hired on or after 3/1/2012)	10.0% of gross pension wages.
Police (hired on or after 10/1/2011)	16.2% of gross pension wages.
Fire (hired on or after 10/1/2012)	16.2% of gross pension wages.
Required contributions in excess of the Employer Cap are paid by active employees.	

## City of Sturgis

### Notes to the Financial Statements

Eligibility	Amount
<b>Member FAC Factor Buy-Up Contributions</b>	
Electric (hired prior to 3/1/2008)	Discontinued on 10/1/2014.
Fire	Discontinued on 10/1/2011.
Police and Dispatchers	Discontinued on 10/1/2013.

#### Post-Retirement Adjustment

Police Union	In addition to the 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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Benefit terms, within the parameters originally established by the Retirement Board, are generally established and amended by authority of the City Commission, generally after negotiations of these terms with the affected bargaining units representing various classes of employees.

#### *Employees Covered by Benefit Terms*

At the September 30, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Receiving Benefits	114
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	22
Active Members	93
Total Employees Covered	<u>229</u>

#### *Contributions*

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Plan hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's required contribution is determined after consideration of the required contribution rate of employees.

## City of Sturgis

### Notes to the Financial Statements

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For the year ended September 30, 2020, the City had the following contribution rates:

<b>Division</b>	<b>Employee Contributions</b>	<b>Employer Contributions</b>
General	1.80%	6.68%
Electric Union	4.55%	12.36%
Police	3.01%	19.66%
Fire	4.30%	19.52%

#### ***Net Pension (Asset) Liability***

The net pension (asset) liability reported at September 30, 2020 was determined using a measure of the total pension liability and the pension net position as of September 30, 2020. The September 30, 2020 total pension liability was determined by an actuarial valuation performed as of that date.

#### ***Actuarial Assumptions***

The total pension liability in the September 30, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.50%
Salary Increases	3.25% to 13.25%
Investment Rate of Return	6.50%

RP-2014 Healthy Annuitant Mortality Table for males and females projected to be fully generational with MP-2016 Mortality Improvement Scale.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

# City of Sturgis

## Notes to the Financial Statements

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Target Gross Rate of Return</b>	<b>Long-term Expected Gross Rate of Return</b>	<b>Inflation Assumption</b>	<b>Long-term Expected Real Rate of Return</b>
Large Cap Equities	27.50%	8.90%	2.45%	2.50%	1.76%
Small Cap Equities	5.00%	9.25%	0.46%	2.50%	0.34%
International Equities	20.00%	8.00%	1.60%	2.50%	1.10%
Emerging Markets Equity	5.50%	10.50%	0.58%	2.50%	0.44%
REITS	5.00%	8.00%	0.40%	2.50%	0.28%
Fixed Income	37.00%	3.60%	1.33%	2.50%	0.41%
Adjust Actual Return to Expected	0.00%	0.00%	-0.32%	2.50%	-0.32%
	<u>100.00%</u>		<u>6.50%</u>		<u>4.00%</u>

### *Discount Rate*

A single discount rate of 6.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 6.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *Changes in Net Pension (Asset) Liability*

Changes in the net pension (asset) liability during the measurement year were as follows:

	<b>Increase (Decrease)</b>		
<b>Changes in Net Pension (Asset) Liability</b>	<b>Total Pension Liability</b>	<b>Plan Net Position</b>	<b>Net Pension (Asset) Liability</b>
<b>Balance at September 30, 2019</b>	\$ 37,702,953	\$ 36,979,792	\$ 723,161
Service Cost	811,934	-	811,934
Interest on Total Pension Liability	2,412,959	-	2,412,959
Contributions - Employer	-	704,743	(704,743)
Contributions - Employee	-	224,074	(224,074)
Net Investment Income	-	3,022,640	(3,022,640)
Benefit Payments, Including Refunds	(1,972,951)	(1,972,951)	-
Difference Between Expected and Actual Experience	(185,350)	-	(185,350)
Administrative Expenses	-	(64,195)	64,195
<i>Net Changes</i>	<u>1,066,592</u>	<u>1,914,311</u>	<u>(847,719)</u>
<b>Balance at September 30, 2020</b>	<u>\$ 38,769,545</u>	<u>\$ 38,894,103</u>	<u>\$ (124,558)</u>

# City of Sturgis

## Notes to the Financial Statements

### *Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate*

The following presents the net pension (asset) liability of the City, calculated using the discount rate of 6.50 percent, as well as what the City's net pension (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Net Pension (Asset) Liability of the City	<u>\$ 4,925,178</u>	<u>\$ (124,558)</u>	<u>\$ (4,382,792)</u>

### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended September 30, 2020, the City recognized pension expense of \$596,880. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Source</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 256,181
Difference Between Expected and Actual Experience	95,492	148,338
Changes in Assumptions	-	600
Total	<u>\$ 95,492</u>	<u>\$ 405,119</u>

Amounts reported as deferred outflows of resources/deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

<b>Year Ending September 30,</b>	<b>Amount</b>
2021	\$ (179,741)
2022	25,636
2023	12,316
2024	(167,548)
2025	(290)



## City of Sturgis

### Notes to the Financial Statements

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#### ***Allocation of Net Pension (Asset) Liability and Related Deferred Items***

At September 30, 2020 the City allocated its net pension (asset) liability and related deferrals as follows:

	<b>Governmental</b>	<b>Business-type Activities</b>			
	<b>Activities</b>	<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>	<b>Total</b>
Deferred Outflows of Resources	\$ 57,295	\$ 30,557	\$ 5,730	\$ 1,910	\$ 95,492
Net Pension (Asset) Liability	(74,735)	(39,859)	(7,473)	(2,491)	(124,558)
Deferred Inflows of Resources	243,072	129,638	24,307	8,102	405,119

#### **NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

##### ***Plan Description***

The City provides retiree healthcare benefits through the City of Sturgis's retiree healthcare plan (the "Plan") to eligible employees and their spouses who meet age and service requirements and were hired prior to specific dates according to collective bargaining agreements or City policy.

##### ***Benefits Provided and Contributions***

The Plan was established and is being funded under the authority of the City. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City made contributions to advance-fund these benefits, as determined by the City Commission through annual budget resolutions.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (September 30, 2020):

Inactive Plan Members or Beneficiaries Receiving Benefits	73
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	0
Active Members	45
Total Employees Covered	<u>118</u>

## City of Sturgis

### Notes to the Financial Statements

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#### ***Methods and Assumptions***

The total OPEB liability was determined by an actuarial valuation as of September 30, 2020 and a measurement date of September 30, 2020 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	6.50%
Discount Rate	6.50%
Average Retirement Age	62
Mortality	A version of PUB-2010 with Scale MP-2018 generational mortality improvement or based on actuarial experience study within the past 5 years.

Non-Medicare healthcare inflation starts at 7.50% and decreases 0.25% per year to a 4.50% long-term rate. Medicare healthcare information starts at 6.00% and decrease 0.25% per year to a 4.50% long-term rate.

#### ***Discount Rate***

The final equivalent single discount rate used for this year's valuation is 6.50 percent as of September 30, 2020 as the OPEB trust is expected to be sufficient to pay all future projected benefit payments based on the City's funding policy of contributing the actuarial determined contributions annually.

#### ***Investment Rate of Return***

The investment rate of return was assumed to be 6.15 percent, net of OPEB plan investment expense, including inflation. The long-term expected rate of return on OPEB plan investments was determined by using the long-term expected rate of return using the target asset allocation:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Global Fixed Income	40.00%	3.75%
Global Equity	60.00%	7.75%

# City of Sturgis

## Notes to the Financial Statements

Changes in the net OPEB liability during the measurement year were as follows:

<b>Changes in Net OPEB Liability</b>	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Net Position</b>	<b>Net OPEB Liability</b>
<b>Balance at September 30, 2019</b>	\$ 10,027,640	\$ 8,299,991	\$ 1,727,649
Service Cost	82,033	-	82,033
Interest on Total OPEB Liability	685,264	-	685,264
Changes in Assumptions	889,415	-	889,415
Difference Between Expected and Actual Experience	(1,409,130)	-	(1,409,130)
Contributions - Employer	-	398,100	(398,100)
Net Investment Income	-	528,551	(528,551)
Benefit Payments, Including Refunds	(651,406)	(651,406)	-
Administrative Expenses	-	(9,750)	9,750
<i>Net Changes</i>	<u>(403,824)</u>	<u>265,495</u>	<u>(669,319)</u>
<b>Balance at September 30, 2020</b>	<u>\$ 9,623,816</u>	<u>\$ 8,565,486</u>	<u>\$ 1,058,330</u>

### *Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the employer, calculated using the discount rate of 6.50 percent, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Net OPEB Liability	<u>\$ 2,091,766</u>	<u>\$ 1,058,330</u>	<u>\$ 177,123</u>

### *Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	<b>1% Decrease</b>	<b>Current Healthcare Trend Rate</b>	<b>1% Increase</b>
Net OPEB Liability	<u>\$ 236,412</u>	<u>\$ 1,058,330</u>	<u>\$ 2,012,913</u>

# City of Sturgis

## Notes to the Financial Statements

### ***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plan***

For the year ended September 30, 2020, the City recognized OPEB expense of \$(204,576). At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>Source</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	\$ 199,886	\$ -
Difference Between Expected and Actual Experience	-	1,629,428
Changes in Assumptions	667,061	21,822
Total	<u>\$ 866,947</u>	<u>\$ 1,651,250</u>

Amounts reported as deferred outflows/(inflows) of resources will be recognized in OPEB expense (income) as follows:

<b>Year Ending September 30,</b>	<b>Amount</b>
2021	\$ (450,540)
2022	(260,214)
2023	(74,055)
2024	506

### ***Allocation of Net OPEB Liability and Related Deferred Items***

At September 30, 2020, the City allocated its net OPEB liability and related deferrals as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>			<b>Total</b>
		<b>Electric</b>	<b>Sanitary Sewer</b>	<b>Water</b>	
Deferred Outflows of Resources	\$ 658,880	\$ 164,720	\$ 26,008	\$ 17,339	\$ 866,947
Net OPEB Liability	804,330	201,083	31,750	21,167	1,058,330
Deferred Inflows of Resources	1,254,949	313,738	49,538	33,025	1,651,250

### **NOTE 14 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts if any, to be immaterial.

## City of Sturgis

### Notes to the Financial Statements

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

#### **NOTE 15 - PURCHASED POWER AGREEMENT**

The City has entered into an agreement as of May 24, 2006, with Indiana Michigan Power Company (American Electric Power) to purchase electric service on a cost-based formula rate. The contract period runs from July 1, 2006 through May 31, 2026 and includes various cancellation clauses for either party based on advance notification dates or specific circumstances arising. The City receives a monthly invoice which includes a demand charge, energy charge, and a fuel charge. The fuel charge is adjusted monthly from an estimated fuel rate factor to an actual. The contract also includes a formula rate true-up clause which requires a calendar year computation based on actual generation demand and generation energy charges. For the fiscal year ended September 30, 2020, the City incurred purchased power cost under this agreement of \$10,155,912, which is included in the electric fund as purchased power expense and includes an estimated liability of \$266,000 for future true-up cost charges. The City has exercised an option to terminate the AEP contract in the prior year. As a result, the City's expected effective end date for the AEP contract will occur in the fiscal year ended September 30, 2021.

The City, pursuant to a resolution adopted July 12, 2017, expanded to full membership in the Michigan Public Power Agency (the "MPPA") in order to provide additional power supply capacity to meet the needs of its customers. The MPPA is a joint action agency organized in 1978 under the authority of Public Act 448 of 1976. The City participates as a member of the Energy Services Project comprised of 21 members. The agreement includes execution of a risk-based strategy to manage energy supply costs using a rolling forward 5-year plan. The agreement may be terminated by the City or the MPPA after the initial term for any reason upon the provision of at least 120 days' written notice to the other party. For the fiscal year ended September 30, 2020, the City incurred purchased power cost under this agreement of \$3,764,134, which is included in the electric fund as purchased power expense.

The City has entered into an agreement as of May 30, 2019, with Electric City Solar LLC for interconnection with the City's distribution system and to purchase all of the metered energy at a contract rate. The contract term is 25 years and may be renewed or extended upon agreement of the parties. At the end of the term, the City has an option to purchase the property. The amount of power purchased cost under this contract for the year ended September 30, 2020 is \$0. The solar facility began generating energy in January of 2021.

In addition, the City has entered into an agreement to purchase solar power from Prism Power Partners. This initiative will allow the City to gain renewable energy credits to help meet State-mandated renewable energy percentages.

## City of Sturgis

### Notes to the Financial Statements

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#### **NOTE 16 - TAX ABATEMENTS**

The City received reduced property tax revenues during 2020 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements entered into by the City.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to \$62,167 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this Act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$58,182 in reduced City tax revenues for the year.

# City of Sturgis

## Notes to the Financial Statements

### NOTE 17 - 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:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>Nonspendable</b>			
Inventory	\$ -	\$ 22,312	\$ 22,312
Prepaid Items	7,145	2,241	9,386
Endowment	-	144,222	144,222
<b>Total Nonspendable</b>	<b>7,145</b>	<b>168,775</b>	<b>175,920</b>
<b>Restricted</b>			
Streets	-	3,425,260	3,425,260
Cemetery Trust	-	494,706	494,706
<b>Total Restricted</b>	<b>-</b>	<b>3,919,966</b>	<b>3,919,966</b>
<b>Committed</b>			
Streets	-	972,591	972,591
Building Department	-	245,677	245,677
Housing Department	-	35,640	35,640
Cemetery	-	37,649	37,649
Drug Enforcement	-	24,587	24,587
Recreation	-	20,294	20,294
Civic Auditorium	-	39,292	39,292
Doyle Community Center	-	44,098	44,098
Airport	-	87,971	87,971
Capital Projects	-	3,037,846	3,037,846
<b>Total Committed</b>	<b>-</b>	<b>4,545,645</b>	<b>4,545,645</b>
<b>Assigned</b>			
Endowment	-	35,270	35,270
<b>Total Assigned</b>	<b>-</b>	<b>35,270</b>	<b>35,270</b>
<b>Unassigned</b>	<b>3,071,980</b>	<b>-</b>	<b>3,071,980</b>
<b>Total Fund Balance</b>	<b>\$ 3,079,125</b>	<b>\$ 8,669,656</b>	<b>\$ 11,748,781</b>

## **REQUIRED SUPPLEMENTARY INFORMATION**



**City of Sturgis**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the year Ended September 30, 2020**

	<b>Budgeted Amounts</b>			<b>Variance Positive (Negative) Final to Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Property Taxes	\$ 2,505,190	\$ 2,505,190	\$ 2,518,563	\$ 13,373
Licenses and Permits	60,000	60,000	16,166	(43,834)
Federal Sources	--	310,710	316,010	5,300
State Sources	1,994,400	2,409,130	2,436,312	27,182
Charges for Services	225,500	225,500	219,302	(6,198)
Fines and Forfeits	33,000	33,000	14,791	(18,209)
Contributions	30,000	30,000	1,645	(28,355)
Payments in Lieu of Taxes	2,739,060	2,739,060	2,743,157	4,097
Administrative Reimbursement	1,119,240	1,119,240	1,119,240	--
Rental Income	9,400	9,400	9,923	523
Other	152,650	112,650	158,285	45,635
Investment Income	170,000	170,000	70,894	(99,106)
<b>Total Revenues</b>	<b>9,038,440</b>	<b>9,723,880</b>	<b>9,624,288</b>	<b>(99,592)</b>
<b>Expenditures</b>				
Legislative	45,250	45,250	38,779	6,471
General Government	1,278,060	1,278,060	1,261,602	16,458
Public Safety	4,602,600	4,630,600	4,527,032	103,568
Public Works	837,110	736,620	519,889	216,731
Health and Welfare	2,000	2,000	1,500	500
Recreation and Culture	778,110	778,110	742,711	35,399
Community and Economic Development	216,340	216,340	212,097	4,243
Debt Service	19,900	19,900	18,760	1,140
<b>Total Expenditures</b>	<b>7,779,370</b>	<b>7,706,880</b>	<b>7,322,370</b>	<b>384,510</b>
<b>Other Financing Uses</b>				
Transfers Out	1,396,740	1,997,465	1,997,465	--
<b>Total Expenditures and Other Financing Uses</b>	<b>9,176,110</b>	<b>9,704,345</b>	<b>9,319,835</b>	<b>384,510</b>
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<b>(137,670)</b>	<b>19,535</b>	<b>304,453</b>	<b>284,918</b>
<b>Net Change in Fund Balance</b>	<b>(137,670)</b>	<b>19,535</b>	<b>304,453</b>	<b>284,918</b>
<b>Fund Balance at Beginning of Period</b>	<b>2,774,672</b>	<b>2,774,672</b>	<b>2,774,672</b>	<b>--</b>
<b>Fund Balance at End of Period</b>	<b>\$ 2,637,002</b>	<b>\$ 2,794,207</b>	<b>\$ 3,079,125</b>	<b>\$ 284,918</b>

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Years**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>							
Service Cost	\$ 811,934	\$ 838,719	\$ 801,729	\$ 681,111	\$ 728,751	\$ 700,614	\$ 646,831
Interest	2,412,959	2,329,774	2,248,088	2,164,205	2,129,388	2,079,410	1,964,261
Difference Between Expected and Actual Experience	(185,350)	63,583	69,707	200,830	(609,493)	(385,599)	646,323
Change in Assumptions	-	-	-	(4,006)	2,382,661	-	-
Changes in Benefits	-	-	-	-	-	-	(20,349)
Benefit Payments, Including Refunds	(1,972,951)	(1,904,895)	(1,857,728)	(1,766,128)	(1,674,660)	(1,596,821)	(1,515,532)
Administrative Expenses	-	-	-	-	(39,840)	(60,802)	(64,799)
<b>Net Change in Pension Liability</b>	<b>1,066,592</b>	<b>1,327,181</b>	<b>1,261,796</b>	<b>1,276,012</b>	<b>2,916,807</b>	<b>736,802</b>	<b>1,656,735</b>
<i>Total Pension Liability - Beginning</i>	<i>37,702,953</i>	<i>36,375,772</i>	<i>35,113,976</i>	<i>33,837,964</i>	<i>30,921,157</i>	<i>30,184,355</i>	<i>28,527,620</i>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 38,769,545</b>	<b>\$ 37,702,953</b>	<b>\$ 36,375,772</b>	<b>\$ 35,113,976</b>	<b>\$ 33,837,964</b>	<b>\$ 30,921,157</b>	<b>\$ 30,184,355</b>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 704,743	\$ 662,986	\$ 484,776	\$ 511,856	\$ 512,328	\$ 559,403	\$ 605,570
Contributions - Member	224,074	221,347	168,973	165,471	159,472	156,826	115,200
Net Investment Income (Loss)	3,022,640	1,502,779	2,268,382	3,294,014	2,852,212	(393,156)	2,929,450
Benefit Payments, Including Refunds	(1,972,951)	(1,904,895)	(1,857,728)	(1,766,128)	(1,674,660)	(1,596,821)	(1,515,532)
Administrative Expenses	(64,195)	(64,329)	(57,848)	(46,542)	(39,840)	(60,802)	(64,799)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,914,311</b>	<b>417,888</b>	<b>1,006,555</b>	<b>2,158,671</b>	<b>1,809,512</b>	<b>(1,334,550)</b>	<b>2,069,889</b>
<i>Plan Fiduciary Net Position - Beginning</i>	<i>36,979,792</i>	<i>36,561,904</i>	<i>35,555,349</i>	<i>33,396,678</i>	<i>31,587,166</i>	<i>32,921,716</i>	<i>30,851,827</i>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 38,894,103</b>	<b>\$ 36,979,792</b>	<b>\$ 36,561,904</b>	<b>\$ 35,555,349</b>	<b>\$ 33,396,678</b>	<b>\$ 31,587,166</b>	<b>\$ 32,921,716</b>
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	<b>\$ (124,558)</b>	<b>\$ 723,161</b>	<b>\$ (186,132)</b>	<b>\$ (441,373)</b>	<b>\$ 441,286</b>	<b>\$ (666,009)</b>	<b>\$ (2,737,361)</b>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.32%	98.08%	100.51%	101.26%	98.70%	102.15%	109.07%
Covered Payroll	\$ 6,239,033	\$ 6,412,526	\$ 6,116,674	\$ 5,532,246	\$ 5,642,470	\$ 5,347,161	\$ 5,090,884
Net Pension Liability as a Percentage of Covered Payroll	-2.00%	11.28%	-3.04%	-7.98%	7.82%	-12.46%	-53.77%

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last Seven Years**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially Determined Contribution	\$ 710,056	\$ 704,573	\$ 484,776	\$ 511,855	\$ 512,328	\$ 559,403	\$ 605,570
Contributions in Relation to the Actuarially Determined Contribution	704,743	662,986	505,737	483,387	521,972	561,708	574,553
Contribution Deficiency (Excess)	<u>\$ 5,313</u>	<u>\$ 41,587</u>	<u>\$ (20,961)</u>	<u>\$ 28,468</u>	<u>\$ (9,644)</u>	<u>\$ (2,305)</u>	<u>\$ 31,017</u>
Covered Payroll	\$ 6,239,033	\$ 6,412,526	\$ 6,116,674	\$ 5,532,246	\$ 5,642,470	\$ 5,347,161	\$ 5,090,884
Contributions as a Percentage of Covered Payroll	11.30%	10.34%	8.27%	8.74%	9.25%	10.50%	11.29%

*Notes*

**Valuation Date**

Actuarially determined contribution rates are calculated as of September 30, which is 24 months prior to the beginning of the fiscal year during which contributions are made.

**Methods and Assumptions Used to Determine Contribution Rates**

Actuarial Cost Method	Individual entry age normal cost
Amortization Method	Level percentage of pay, open
Remaining Amortization Period	15 years
Asset Valuation Method	Market value with 5-year smoothing; 20% corridor
Inflation	2.50%
Salary Increases	3.25% to 13.25%
Investment Rate of Return	6.50%
Retirement Age	Age and experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Healthy Annuitant Mortality Table for males and females projected to be fully generational with MP-2016 Mortality Improvement Scale.

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Last Three Years**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Total OPEB Liability</b>			
Service Cost	\$ 82,033	\$ 79,871	\$ 72,300
Interest	685,264	725,959	757,030
Changes in Assumptions	889,415	-	(87,285)
Difference Between Expected and Actual Experience	(1,409,130)	(808,155)	(674,013)
Benefit Payments	(651,406)	(513,345)	(525,378)
<b>Net Change in total OPEB Liability</b>	<b>(403,824)</b>	<b>(515,670)</b>	<b>(457,346)</b>
<i>Total OPEB Liability - Beginning</i>	<i>10,027,640</i>	<i>10,543,310</i>	<i>11,000,656</i>
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 9,623,816</b>	<b>\$ 10,027,640</b>	<b>\$ 10,543,310</b>
 <b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 398,100	\$ 655,140	\$ 907,200
Net Investment Income	528,551	279,965	429,888
Benefit Payments	(651,406)	(513,345)	(525,378)
Trust Administrative Expenses	(9,750)	(12,250)	(18,121)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>265,495</b>	<b>409,510</b>	<b>793,589</b>
<i>Plan Fiduciary Net Position - Beginning</i>	<i>8,299,991</i>	<i>7,890,481</i>	<i>7,096,892</i>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 8,565,486</b>	<b>\$ 8,299,991</b>	<b>\$ 7,890,481</b>
 <b>Net OPEB Liability - Ending (a) - (b)</b>	<b>\$ 1,058,330</b>	<b>\$ 1,727,649</b>	<b>\$ 2,652,829</b>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	89.00%	82.77%	74.84%
 Covered Payroll	\$ 3,327,727	\$ 3,549,913	\$ 3,748,674
 Net OPEB Liability as a Percentage of Covered Payroll	31.80%	48.67%	70.77%

\* Built prospectively upon implementation of GASB 75

**City of Sturgis**  
**Required Supplementary Information**  
**Schedule of Contributions - OPEB**  
**Last Three Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 366,320	\$ 654,338	\$ 906,796
Contributions in Relation to the Actuarially Determined	398,100	655,140	907,200
Contribution Deficiency (Excess)	<u>\$ (31,780)</u>	<u>\$ (802)</u>	<u>\$ (404)</u>
Covered Payroll	\$ 3,327,727	\$ 3,549,913	\$ 3,748,674
Contributions as a Percentage of Covered Payroll	11.96%	18.46%	24.20%

*Notes*

**Valuation Date: September 30, 2020**

**Methods and Assumptions Used to Determine Contribution Rates**

Actuarial Cost Method	Entry Age Normal Level % of Salary
Amortization Method	Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	6.50%
Retirement Age	Average - 62 years
Mortality	A version of PUB-2010 with Scale MP-2018 generational mortality improvement or based on actuarial experience study within the past 5 years.

*\* Built prospectively upon implementation of GASB 75*

## **Combining and Individual Fund Statements and Schedules**

**City of Sturgis  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2020**

	<b>Special Revenue</b>					
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Municipal Street</b>	<b>Municipal Street/Sidewalk Improvement</b>	<b>Building Department</b>	<b>Housing Department</b>
<b>ASSETS</b>						
Cash and Investments	\$ 1,353,703	\$ 1,159,579	\$ 1,223,021	\$ 952,459	\$ 249,253	\$ 36,419
Accounts Receivable	--	--	--	--	--	--
Taxes Receivable	--	--	--	54,607	--	--
Special Assessments Receivable	--	--	--	13,037	--	--
Inventory	--	--	--	--	--	--
Prepaid Items	--	--	--	--	--	--
Due from Other Governmental Units	79,722	29,097	--	--	--	--
<b>Total Assets</b>	<b>\$ 1,433,425</b>	<b>\$ 1,188,676</b>	<b>\$ 1,223,021</b>	<b>\$ 1,020,103</b>	<b>\$ 249,253</b>	<b>\$ 36,419</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 17,928	\$ 335	\$ 250,430	\$ 124,394	\$ 130	\$ 779
Accrued Expenses	6,672	5,711	--	--	3,446	--
Customer Deposits	--	--	--	--	--	--
Unearned Revenue	--	--	--	48,867	--	--
<b>Total Liabilities</b>	<b>24,600</b>	<b>6,046</b>	<b>250,430</b>	<b>173,261</b>	<b>3,576</b>	<b>779</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Taxes Intended to Finance a Subsequent Year	--	--	--	13,037	--	--
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>24,600</b>	<b>6,046</b>	<b>250,430</b>	<b>186,298</b>	<b>3,576</b>	<b>779</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	--	--	--	--
Restricted	1,408,825	1,182,630	--	833,805	--	--
Committed	--	--	972,591	--	245,677	35,640
Assigned	--	--	--	--	--	--
Unassigned	--	--	--	--	--	--
<b>Total Fund Balance</b>	<b>1,408,825</b>	<b>1,182,630</b>	<b>972,591</b>	<b>833,805</b>	<b>245,677</b>	<b>35,640</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,433,425</b>	<b>\$ 1,188,676</b>	<b>\$ 1,223,021</b>	<b>\$ 1,020,103</b>	<b>\$ 249,253</b>	<b>\$ 36,419</b>

**City of Sturgis  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2020**

	Special Revenue					
	Cemetery	Drug Enforcement	Recreation	Civic Auditorium	Sturgis Arts Council	Doyle Community Center
<b>ASSETS</b>						
Cash and Investments	\$ 49,329	\$ 24,587	\$ 33,016	\$ 91,018	\$ --	\$ 84,507
Accounts Receivable	--	--	--	378	--	--
Taxes Receivable	--	--	--	--	--	--
Special Assessments Receivable	--	--	--	--	--	--
Inventory	--	--	--	8,935	--	--
Prepaid Items	--	--	866	1,375	--	--
Due from Other Governmental Units	--	--	--	--	--	--
<i>Total Assets</i>	<b>\$ 49,329</b>	<b>\$ 24,587</b>	<b>\$ 33,882</b>	<b>\$ 101,706</b>	<b>\$ --</b>	<b>\$ 84,507</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 5,720	\$ --	\$ 5,803	\$ 44,651	\$ --	\$ 5,521
Accrued Expenses	5,960	--	3,039	4,940	--	7,538
Customer Deposits	--	--	--	2,513	--	--
Unearned Revenue	--	--	3,880	--	--	27,350
<i>Total Liabilities</i>	<b>11,680</b>	<b>--</b>	<b>12,722</b>	<b>52,104</b>	<b>--</b>	<b>40,409</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Taxes Intended to Finance a Subsequent Year	--	--	--	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<b>11,680</b>	<b>--</b>	<b>12,722</b>	<b>52,104</b>	<b>--</b>	<b>40,409</b>
<b>FUND BALANCE</b>						
Nonspendable	--	--	866	10,310	--	--
Restricted	--	--	--	--	--	--
Committed	37,649	24,587	20,294	39,292	--	44,098
Assigned	--	--	--	--	--	--
Unassigned	--	--	--	--	--	--
<i>Total Fund Balance</i>	<b>37,649</b>	<b>24,587</b>	<b>21,160</b>	<b>49,602</b>	<b>--</b>	<b>44,098</b>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<b>\$ 49,329</b>	<b>\$ 24,587</b>	<b>\$ 33,882</b>	<b>\$ 101,706</b>	<b>\$ --</b>	<b>\$ 84,507</b>



**City of Sturgis**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**September 30, 2020**

	<u>Special Revenue</u>		<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Airport</u>	<u>Capital Projects</u>	<u>Cemetery Trust</u>	<u>Endowment Fund</u>	
<b>ASSETS</b>					
Cash and Investments	\$ 67,765	\$ 3,037,846	\$ 494,214	\$ 179,492	\$ 9,036,208
Accounts Receivable	12,835	--	492	--	13,705
Taxes Receivable	--	--	--	--	54,607
Special Assessments Receivable	--	--	--	--	13,037
Inventory	13,377	--	--	--	22,312
Prepaid Items	--	--	--	--	2,241
Due from Other Governmental Units	30,000	--	--	--	138,819
<i><b>Total Assets</b></i>	<b>\$ 123,977</b>	<b>\$ 3,037,846</b>	<b>\$ 494,706</b>	<b>\$ 179,492</b>	<b>\$ 9,280,929</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 21,704	\$ --	\$ --	\$ --	\$ 477,395
Accrued Expenses	925	--	--	--	38,231
Customer Deposits	--	--	--	--	2,513
Unearned Revenue	--	--	--	--	80,097
<i><b>Total Liabilities</b></i>	<b>22,629</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>598,236</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Taxes Intended to Finance a Subsequent Year	--	--	--	--	13,037
<i><b>Total Liabilities and Deferred Inflows of Resources</b></i>	<b>22,629</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>611,273</b>
<b>FUND BALANCE</b>					
Nonspendable	13,377	--	--	144,222	168,775
Restricted	--	--	494,706	--	3,919,966
Committed	87,971	3,037,846	--	--	4,545,645
Assigned	--	--	--	35,270	35,270
Unassigned	--	--	--	--	--
<i><b>Total Fund Balance</b></i>	<b>101,348</b>	<b>3,037,846</b>	<b>494,706</b>	<b>179,492</b>	<b>8,669,656</b>
<i><b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b></i>	<b>\$ 123,977</b>	<b>\$ 3,037,846</b>	<b>\$ 494,706</b>	<b>\$ 179,492</b>	<b>\$ 9,280,929</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the year Ended September 30, 2020**

	Special Revenue					
	Major Streets	Local Streets	Municipal Street	Municipal Street/Sidewalk Improvement	Building Department	Housing Department
<b>Revenues</b>						
Property Taxes	\$ --	\$ 233,021	\$ --	\$ 718,863	\$ --	\$ --
Licenses and Permits	--	--	--	--	201,058	--
Federal Sources	--	--	--	--	--	--
State Sources	1,012,262	502,149	--	189,613	--	--
Charges for Services	--	--	--	--	--	29,955
Local Contributions	--	--	--	--	--	--
Rental Income	--	--	--	--	--	--
Other	--	6,009	--	8,955	--	--
Investment Income (Loss)	8,293	8,061	28,048	2,920	973	120
<b>Total Revenues</b>	<b>1,020,555</b>	<b>749,240</b>	<b>28,048</b>	<b>920,351</b>	<b>202,031</b>	<b>30,075</b>
<b>Expenditures</b>						
General Government	--	--	--	--	--	--
Public Safety	--	--	--	--	117,203	--
Public Works	600,476	446,431	931,422	812,876	--	--
Recreation and Culture	--	--	--	--	--	--
Community and Economic Development	--	--	--	--	--	89,825
Debt Service - Principal	--	--	--	--	--	--
Debt Service - Interest	--	--	--	--	--	--
<b>Total Expenditures</b>	<b>600,476</b>	<b>446,431</b>	<b>931,422</b>	<b>812,876</b>	<b>117,203</b>	<b>89,825</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>420,079</b>	<b>302,809</b>	<b>(903,374)</b>	<b>107,475</b>	<b>84,828</b>	<b>(59,750)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers In	--	--	--	--	--	75,000
Transfers Out	--	--	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>75,000</b>
<b>Net Change in Fund Balance</b>	<b>420,079</b>	<b>302,809</b>	<b>(903,374)</b>	<b>107,475</b>	<b>84,828</b>	<b>15,250</b>
<b>Fund Balance at Beginning of Period</b>	<b>988,746</b>	<b>879,821</b>	<b>1,875,965</b>	<b>726,330</b>	<b>160,849</b>	<b>20,390</b>
<b>Fund Balance at End of Period</b>	<b>\$ 1,408,825</b>	<b>\$ 1,182,630</b>	<b>\$ 972,591</b>	<b>\$ 833,805</b>	<b>\$ 245,677</b>	<b>\$ 35,640</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the year Ended September 30, 2020**

	Special Revenue					
	Cemetery	Drug Enforcement	Recreation	Civic Auditorium	Sturgis Arts Council	Doyle Community Center
<b>Revenues</b>						
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses and Permits	--	--	--	--	--	--
Federal Sources	--	--	--	--	--	--
State Sources	--	--	--	--	--	--
Charges for Services	81,142	--	58,366	124,949	--	302,527
Local Contributions	--	--	13,469	176,873	--	28,940
Rental Income	1,584	--	--	25,300	--	33,905
Other	75	1,896	2	25,170	--	4,260
Investment Income (Loss)	76	131	141	--	--	555
<b>Total Revenues</b>	<b>82,877</b>	<b>2,027</b>	<b>71,978</b>	<b>352,292</b>	<b>--</b>	<b>370,187</b>
<b>Expenditures</b>						
General Government	301,549	--	--	--	--	--
Public Safety	--	14,967	--	--	--	--
Public Works	--	--	--	--	--	--
Recreation and Culture	--	--	181,592	705,627	--	397,530
Community and Economic Development	--	--	--	--	--	--
Debt Service - Principal	--	--	--	42,813	--	22,963
Debt Service - Interest	--	--	--	17,498	--	10,526
<b>Total Expenditures</b>	<b>301,549</b>	<b>14,967</b>	<b>181,592</b>	<b>765,938</b>	<b>--</b>	<b>431,019</b>
<b>Excess of Revenues Over</b>						
<b>(Under) Expenditures</b>	<b>(218,672)</b>	<b>(12,940)</b>	<b>(109,614)</b>	<b>(413,646)</b>	<b>--</b>	<b>(60,832)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers In	239,412	12,000	108,000	441,360	--	42,500
Transfers Out	--	--	--	--	(35,746)	--
<b>Net Other Financing Sources (Uses)</b>	<b>239,412</b>	<b>12,000</b>	<b>108,000</b>	<b>441,360</b>	<b>(35,746)</b>	<b>42,500</b>
<b>Net Change in Fund Balance</b>	<b>20,740</b>	<b>(940)</b>	<b>(1,614)</b>	<b>27,714</b>	<b>(35,746)</b>	<b>(18,332)</b>
<b>Fund Balance at Beginning of Period</b>	<b>16,909</b>	<b>25,527</b>	<b>22,774</b>	<b>21,888</b>	<b>35,746</b>	<b>62,430</b>
<b>Fund Balance at End of Period</b>	<b>\$ 37,649</b>	<b>\$ 24,587</b>	<b>\$ 21,160</b>	<b>\$ 49,602</b>	<b>\$ --</b>	<b>\$ 44,098</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the year Ended September 30, 2020**

	<u>Special Revenue</u>		<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Airport</u>	<u>Capital Projects</u>	<u>Cemetery Trust</u>	<u>Endowment Fund</u>	
<b>Revenues</b>					
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ 951,884
Licenses and Permits	--	--	--	--	201,058
Federal Sources	30,000	--	--	--	30,000
State Sources	--	--	--	--	1,704,024
Charges for Services	69,954	--	2,964	--	669,857
Local Contributions	--	--	--	--	219,282
Rental Income	48,408	--	--	--	109,197
Other	3,093	--	--	--	49,460
Investment Income (Loss)	235	31,902	36,263	--	117,718
<b>Total Revenues</b>	<b>151,690</b>	<b>31,902</b>	<b>39,227</b>	<b>--</b>	<b>4,052,480</b>
<b>Expenditures</b>					
General Government	--	--	--	--	301,549
Public Safety	--	--	--	--	132,170
Public Works	204,881	--	--	--	2,996,086
Recreation and Culture	--	--	--	--	1,284,749
Community and Economic Development	--	--	--	--	89,825
Debt Service - Principal	--	--	--	--	65,776
Debt Service - Interest	--	--	--	--	28,024
<b>Total Expenditures</b>	<b>204,881</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>4,898,179</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(53,191)</b>	<b>31,902</b>	<b>39,227</b>	<b>--</b>	<b>(845,699)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers In	90,000	1,010,725	--	--	2,018,997
Transfers Out	--	(60,394)	(63,432)	--	(159,572)
<b>Net Other Financing Sources (Uses)</b>	<b>90,000</b>	<b>950,331</b>	<b>(63,432)</b>	<b>--</b>	<b>1,859,425</b>
<b>Net Change in Fund Balance</b>	<b>36,809</b>	<b>982,233</b>	<b>(24,205)</b>	<b>--</b>	<b>1,013,726</b>
<i>Fund Balance at Beginning of Period</i>	<i>64,539</i>	<i>2,055,613</i>	<i>518,911</i>	<i>179,492</i>	<i>7,655,930</i>
<b>Fund Balance at End of Period</b>	<b>\$ 101,348</b>	<b>\$ 3,037,846</b>	<b>\$ 494,706</b>	<b>\$ 179,492</b>	<b>\$ 8,669,656</b>

**City of Sturgis**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**September 30, 2020**

	<b>Internal Service</b>			
	<b>Workers' Compensation Insurance</b>	<b>Motor Vehicle and Equipment</b>	<b>Employee Benefit</b>	<b>Total Internal Service Funds</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Investments	\$ 166,765	\$ 1,481,112	\$ 136,620	\$ 1,784,497
Accounts Receivable	--	--	84,446	84,446
Inventory	--	2,332	--	2,332
Prepaid Items	88,714	--	50,555	139,269
<b>Total Current Assets</b>	<b>255,479</b>	<b>1,483,444</b>	<b>271,621</b>	<b>2,010,544</b>
<i>Noncurrent Assets</i>				
Capital Assets being Depreciated	--	1,724,736	--	1,724,736
<b>Total Assets</b>	<b>255,479</b>	<b>3,208,180</b>	<b>271,621</b>	<b>3,735,280</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	--	43,200	50,094	93,294
Accrued Expenses	--	3,483	50,000	53,483
Current Portion of Long-term Debt	--	65,811	--	65,811
<b>Total Current Liabilities</b>	<b>--</b>	<b>112,494</b>	<b>100,094</b>	<b>212,588</b>
<i>Noncurrent Liabilities</i>				
Long-term Debt	--	407,428	--	407,428
<b>Total Liabilities</b>	<b>--</b>	<b>519,922</b>	<b>100,094</b>	<b>620,016</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	--	1,251,497	--	1,251,497
<i>Unrestricted</i>	255,479	1,436,761	171,527	1,863,767
<b>Total Net Position</b>	<b>\$ 255,479</b>	<b>\$ 2,688,258</b>	<b>\$ 171,527</b>	<b>\$ 3,115,264</b>

**City of Sturgis**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the year Ended September 30, 2020**

	<b>Internal Service</b>			
	<b>Workers' Compensation Insurance</b>	<b>Motor Vehicle and Equipment</b>	<b>Employee Benefit</b>	<b>Total Internal Service Funds</b>
<b>Operating Revenues</b>				
Charges for Services	\$ 102,064	\$ 1,213,438	\$ 3,216,972	\$ 4,532,474
<b>Total Operating Revenues</b>	<b>102,064</b>	<b>1,213,438</b>	<b>3,216,972</b>	<b>4,532,474</b>
<b>Operating Expenses</b>				
Material, Maintenance, and Other	--	445,747	--	445,747
General and Administrative	1,200	108,122	36,388	145,710
Depreciation	--	468,642	--	468,642
Insurance Premiums and Claims	129,140	49,025	3,090,927	3,269,092
<b>Total Operating Expenses</b>	<b>130,340</b>	<b>1,071,536</b>	<b>3,127,315</b>	<b>4,329,191</b>
<b>Operating Income (Loss)</b>	<b>(28,276)</b>	<b>141,902</b>	<b>89,657</b>	<b>203,283</b>
<b>Non-Operating Revenues (Expenses)</b>				
Investment Income	1,064	22,468	1,812	25,344
Gain on Sale of Assets	--	97,590	--	97,590
Interest Expense	--	(10,049)	--	(10,049)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>1,064</b>	<b>110,009</b>	<b>1,812</b>	<b>112,885</b>
<b>Change In Net Position</b>	<b>(27,212)</b>	<b>251,911</b>	<b>91,469</b>	<b>316,168</b>
<i>Net Position at Beginning of Period</i>	<i>282,691</i>	<i>2,436,347</i>	<i>80,058</i>	<i>2,799,096</i>
<b>Net Position at End of Period</b>	<b>\$ 255,479</b>	<b>\$ 2,688,258</b>	<b>\$ 171,527</b>	<b>\$ 3,115,264</b>

**City of Sturgis**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended September 30, 2020**

	<b>Internal Service</b>			
	<b>Workers' Compensation Insurance</b>	<b>Motor Vehicle and Equipment</b>	<b>Employee Benefit</b>	<b>Total Internal Service Funds</b>
<b>Cash Flows from Operating Activities</b>				
Cash Received from Interfund Services	\$ 102,064	\$ 1,213,530	\$ 3,150,669	\$ 4,466,263
Cash Payments for Goods and Services	(123,129)	(519,382)	(3,128,554)	(3,771,065)
Cash Payments to Employees	--	(73,086)	--	(73,086)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(21,065)</b>	<b>621,062</b>	<b>22,115</b>	<b>622,112</b>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	--	(834,638)	--	(834,638)
Principal and Interest Paid on Long-term Debt	--	(77,358)	--	(77,358)
Gain on Disposal of Capital Assets	--	97,590	--	97,590
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>--</b>	<b>(814,406)</b>	<b>--</b>	<b>(814,406)</b>
<b>Cash Flows from Investing Activities</b>				
Investment Income	1,064	22,468	1,812	25,344
<b>Net Cash Provided by from Investing Activities</b>	<b>1,064</b>	<b>22,468</b>	<b>1,812</b>	<b>25,344</b>
<b>Net Increase (Decrease) in Cash and Investments</b>	<b>(20,001)</b>	<b>(170,876)</b>	<b>23,927</b>	<b>(166,950)</b>
<i>Cash and Investments - Beginning of Year</i>	<i>186,766</i>	<i>1,651,988</i>	<i>112,693</i>	<i>1,951,447</i>
<b>Cash and Investments - End of Year</b>	<b>\$ 166,765</b>	<b>\$ 1,481,112</b>	<b>\$ 136,620</b>	<b>\$ 1,784,497</b>
<b>Reconciliation of Operating Income (Loss) to</b>				
<b>Net Cash Provided by (Used in) Operating Activities</b>				
Operating Income (Loss)	\$ (28,276)	\$ 141,902	\$ 89,657	\$ 203,283
<b>Adjustments to Reconcile Operating Income (Loss) to</b>				
<b>Net Cash Provided by (Used in) Operating Activities</b>				
Depreciation Expense	--	468,642	--	468,642
<b>Changes in Assets and Liabilities</b>				
Accounts Receivable	--	92	(66,303)	(66,211)
Prepaid Items	30,854	--	93,359	124,213
Accounts Payable	(23,643)	9,110	(94,598)	(109,131)
Accrued Expenses	--	1,316	--	1,316
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (21,065)</b>	<b>\$ 621,062</b>	<b>\$ 22,115</b>	<b>\$ 622,112</b>

**City of Sturgis**  
**Brownfield Redevelopment Authority Balance Sheet and Statement of Net Position**  
**September 30, 2020**

	<b>Brownfield Redevelopment Authority</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
Cash and Investments	\$ 137,460	\$ --	\$ 137,460
<b><i>Total Assets</i></b>	<b>\$ 137,460</b>	<b>\$ --</b>	<b>\$ 137,460</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accrued Interest	\$ --	\$ 167,824	\$ 167,824
<b><i>Total Current Liabilities</i></b>	<b>--</b>	<b>167,824</b>	<b>167,824</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	1,700,000 [1]	1,700,000
<b><i>Total Liabilities</i></b>	<b>--</b>	<b>1,867,824</b>	<b>1,867,824</b>
<b>FUND BALANCE</b>			
<i>Restricted for:</i>			
Community and Economic Development	137,460	(137,460)	
<b><i>Total Fund Balance</i></b>	<b>137,460</b>	<b>(137,460)</b>	
<b><i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i></b>	<b>\$ 137,460</b>	<b>1,730,364</b>	
<b>NET POSITION</b>			
<i>Restricted for:</i>			
Community and Economic Development		(1,730,364)	(1,730,364)
<b><i>Total Net Position</i></b>		<b>\$ (1,730,364)</b>	<b>\$ (1,730,364)</b>

[1] Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.



**City of Sturgis**  
**Brownfield Redevelopment Authority Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance and Statement of Activities**  
**For the Year Ended September 30, 2020**

	<b>Brownfield Redevelopment Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Property Taxes	\$ 210,062	\$ --	\$ 210,062
<b>Total Revenues</b>	<u>210,062</u>	<u>--</u>	<u>210,062</u>
<b>Expenditures</b>			
Community and Economic Development	78,633	--	78,633
Debt Service - Principal	67,008	(67,008) [1]	--
Debt Service - Interest	1,006	41,956 [2]	42,962
<b>Total Expenditures</b>	<u>146,647</u>	<u>(25,052)</u>	<u>121,595</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>63,415</u>	<u>25,052</u>	<u>88,467</u>
<b>Net Change in Fund Balance / Net Position</b>	<u><b>63,415</b></u>	<u><b>25,052</b></u>	<u><b>88,467</b></u>
<i>Fund Balance / Net Position at Beginning of Period</i>	74,045	(1,892,876)	(1,818,831)
<b>Fund Balance / Net Position at End of Period</b>	<u><b>\$ 137,460</b></u>	<u><b>\$ (1,867,824)</b></u>	<u><b>\$ (1,730,364)</b></u>

[1] Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.

[2] Expenditures in the statement of activities that do not use current resources are not reported as expenditures in the funds, but rather accrued to subsequent fiscal years.

**City of Sturgis**  
**LDFA Balance Sheet and Statement of Net Position**  
**September 30, 2020**

	<u>LDFA</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Investments	\$ 120,259	\$ --	\$ 120,259
Taxes Receivable	2,062	--	2,062
<b><i>Total Current Assets</i></b>	<u>122,321</u>	<u>--</u>	<u>122,321</u>
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated	--	68,306 [1]	68,306
<b><i>Total Assets</i></b>	<u><b>\$ 122,321</b></u>	<u><b>\$ 68,306</b></u>	<u><b>\$ 190,627</b></u>
<b>LIABILITIES</b>			
<b><i>Total Liabilities</i></b>	<u>--</u>	<u>--</u>	<u>--</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	2,062	--	2,062
<b>FUND BALANCE</b>			
<i>Restricted for:</i>			
Community and Economic Development	120,259	(120,259)	--
<b><i>Total Fund Balance</i></b>	<u>120,259</u>	<u>(120,259)</u>	<u>--</u>
<b><i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i></b>	<u><b>\$ 122,321</b></u>	<u><b>\$ (120,259)</b></u>	<u><b>\$ 2,062</b></u>
<b>NET POSITION</b>			
Net Investment in Capital Assets		\$ 68,306	\$ 68,306
<i>Restricted for:</i>			
Community and Economic Development		120,259	120,259
<b><i>Total Net Position</i></b>		<u><b>\$ 188,565</b></u>	<u><b>\$ 188,565</b></u>

[1] Capital assets used in LDFA activities are not financial resources and, therefore, are not reported in the funds.

**City of Sturgis**  
**LDFA Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities**  
**For the Year Ended September 30, 2020**

	<u>LDFA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Property Taxes	\$ 5,466	\$ --	\$ 5,466
State Sources	50,612	--	50,612
Investment Income	552	--	552
<b><i>Total Revenues</i></b>	<u>56,630</u>	<u>--</u>	<u>56,630</u>
<b>Expenditures</b>			
<b><i>Total Expenditures</i></b>	<u>--</u>	<u>--</u>	<u>--</u>
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	<u>56,630</u>	<u>--</u>	<u>56,630</u>
<b><i>Net Change in Fund Balance / Net Position</i></b>	<u><b>56,630</b></u>	<u>--</u>	<u><b>56,630</b></u>
<i>Fund Balance / Net Position at Beginning of Period</i>	63,629	68,306	131,935
<b><i>Fund Balance / Net Position at End of Period</i></b>	<u><b>\$ 120,259</b></u>	<u><b>\$ 68,306</b></u>	<u><b>\$ 188,565</b></u>

**City of Sturgis**  
**Building Authority Balance Sheet and Statement of Net Position**  
**September 30, 2020**

	<u>Building Authority</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Investments	\$ 2,819	\$ --	\$ 2,819
Lease Receivable	--	370,000 [1]	370,000
<b>Total Current Assets</b>	<u>2,819</u>	<u>370,000</u>	<u>372,819</u>
<i>Noncurrent Assets</i>			
Long-term Lease Receivable	--	7,140,000 [1]	7,140,000
<b>Total Assets</b>	<u><b>\$ 2,819</b></u>	<u><b>\$ 7,510,000</b></u>	<u><b>\$ 7,512,819</b></u>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Current Portion of Long-term Debt	\$ --	\$ 370,000 [2]	\$ 370,000
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	7,140,000 [2]	7,140,000
<b>Total Liabilities</b>	<u>--</u>	<u>7,510,000</u>	<u>7,510,000</u>
<b>FUND BALANCE</b>			
<i>Restricted for:</i>			
Community and Economic Development	2,819	(2,819)	--
<b>Total Fund Balance</b>	<u>2,819</u>	<u>(2,819)</u>	<u>--</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<u><b>\$ 2,819</b></u>	<u><b>\$ 7,507,181</b></u>	<u><b>\$ 7,510,000</b></u>
<b>NET POSITION</b>			
<i>Restricted for:</i>			
Community and Economic Development		\$ 2,819	\$ 2,819
<b>Total Net Position</b>		<u><b>\$ 2,819</b></u>	<u><b>\$ 2,819</b></u>

[1] Certain assets are not due and collectible in the current period and, therefore, are not reported in the funds.

[2] Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

**City of Sturgis**  
**Building Authority Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance and Statement of Activities**  
**For the Year Ended September 30, 2020**

	<b>Building Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Lease Income	\$ 652,363	\$ (350,000) [1]	\$ 302,363
<b>Total Revenues</b>	<b>652,363</b>	<b>(350,000)</b>	<b>302,363</b>
<b>Expenditures</b>			
Debt Service - Principal	350,000	(350,000) [2]	--
Debt Service - Interest	302,113	--	302,113
<b>Total Expenditures</b>	<b>652,113</b>	<b>(350,000)</b>	<b>302,113</b>
<b>Excess of Revenues Over</b>			
<b>(Under) Expenditures</b>	<b>250</b>	<b>--</b>	<b>250</b>
<b>Net Change in Fund Balance / Net Position</b>	<b>250</b>	<b>--</b>	<b>250</b>
<i>Fund Balance / Net Position at Beginning of Period</i>	<i>2,569</i>	<i>--</i>	<i>2,569</i>
<b>Fund Balance / Net Position at End of Period</b>	<b>\$ 2,819</b>	<b>\$ --</b>	<b>\$ 2,819</b>

[1] Collection of lease receivable is a revenue in the governmental funds but the collection reduces long-term receivables in the statement of net position.

[2] Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.

April 30, 2021

To the City Commission  
City of Sturgis, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis (the “City”) for the year ended September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 8, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *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 are described in Note 1 to the financial statements. There were no new accounting policies implemented during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 City’s financial statements were:

- 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 the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension and other post-employment plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *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 clearly 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 each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 April 30, 2021.

#### *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 City'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's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Other Matters

We applied certain limited procedures to management's discussion and analysis, OPEB and pension schedules, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements and individual fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Upcoming Accounting Standards Requiring Preparation**

### ***GASB Statement No. 84 - Fiduciary Activities***

This new pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Given the potential to have a major impact on many governments, not only to its external financial statements, but also to its accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the types of activities that should be analyzed and then running those activities through the lens of this standard.

### ***GASB Statement No. 87 – Leases***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2020. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources



or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

### ***Updated Uniform Chart of Accounts***

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” On November 24, 2020, the State issued a memo that sets an implementation date for fiscal years ending on September 30, 2023 and thereafter. In the coming months, the State has committed to releasing various tools to help local units with implementation. On October 31, 2019, the FAQs will be released along with clarification on what accounts should be used when implementing GASB 84. A significant revision will be issued on December 31, 2019 that will incorporate feedback that the Treasury has received. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. In addition, the FAQ will be a live document that will be updated as questions arise. Local units can sign up for alerts at this link:

[https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS\\_1](https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1)

The Frequently Asked Questions, Uniform Chart of Accounts, and Implementation Date documents can be located at this link:

[https://www.michigan.gov/treasury/0,4679,7-121-1751\\_2194-171570--,00.html](https://www.michigan.gov/treasury/0,4679,7-121-1751_2194-171570--,00.html)

The City will need to implement the new chart of accounts on October 1, 2022 for the fiscal year ending September 30, 2023.

We will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC  
Sturgis, Michigan