

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis, Michigan, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

Other Location:
123 N. Main Street
Three Rivers, MI 49093
Fax 269.278.8252

Bruce S.A. Gosling, CPA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA
Dwight M. Blodgett, CPA

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 21 to the financial statements, City of Sturgis implemented Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans* and Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

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

City of Sturgis

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015, on our consideration of the City of Sturgis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sturgis' internal control over financial reporting and compliance.

Norman & Paulsen, P.C.

March 30, 2015

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$5,489,612 during the fiscal year ended September 30, 2014, which represents a 8.1percent increase in net position from \$67,506,406 at the beginning of the year to \$71,043,709 at the end of the year. Included in the City's total net position are the Electric Utility Fund. The Electric Utility's net position decreased by \$2,535,022 to \$36,257,981 due to a transfer to the Capital Projects Fund of \$5,000,000.

The City's Governmental Funds reflected a total fund balance at September 30, 2014 of \$10,103,346, which was an increase of \$4,951,716 from the prior year end and included the \$5,000,000 transfer from the Electric Utility Fund.

The City's General Fund reflected a total fund balance at September 30, 2014 of \$3,080,074, which was an increase of \$558,940 from the prior year end.

The City's Municipal Street Fund reflected a total fund balance at September 30, 2014 of \$1,322,264 which was an increase of \$785,941 from the prior year end and included an operating transfer from the Capital Projects Fund of \$1,400,000.

The City's Municipal Street/Sidewalk Improvement Fund reflected a total fund balance at September 30, 2014 of \$517,934 which was a decrease of \$176,634 from the prior year end and included voter approved property tax revenue of \$748,554.

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

State revenue sharing amounted to \$960,612 which was a \$25,144 increase. This is down by \$347,349 or 26% from a 2001 high of \$1,307,961.

The Net Position of the Pension Trust Fund increased by \$2,069,890 or 7% of beginning net position of \$30,851,827. This was the result of a net appreciation in the fair value of investments of \$2,208,740.

The total Governmental Fund expenditures for the year ended September 30, 2014, amounted to \$11,605,705, of which \$4,142,269 (36 percent) was for public safety, \$3,677,680 (32 percent) was for public works, \$1,625,003 (14 percent) was for recreation and cultural, and \$1,515,530 (13 percent) was for general government.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net position as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2014	2013	2014	2013
Assets	\$ 14,870	\$ 8,950	\$ 70,886	\$ 69,781
Liabilities	4,767	3,798	19,272	17,141
Fund Equity				
Invested in capital assets, net of related debt	-	-	27,894	27,811
Retained Earnings				
Restricted	-	-	1,035	1,114
Unreserved	-	-	22,685	23,715
Fund Balances				
Reserved	1,655	1,875	-	-
Unreserved	8,448	3,277	-	-
Total Fund Equity	\$ 10,103	\$ 5,152	\$ 51,614	\$ 52,640

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 96 percent or \$4,951,716 from a year ago. In contrast the prior years governmental fund equity increased by 1.7 percent or \$759,702.

The City's enterprise fund equity decreased by 3.2 percent or \$1,682,044 from a year ago. In contrast the prior years enterprise fund equity increased by 1.2 percent or \$639,652.

The following table shows, in a condensed format, the net position of the current date as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 18,739	\$ 10,265	\$ 26,978	\$ 29,027
Capital assets	<u>12,744</u>	<u>10,417</u>	<u>43,908</u>	<u>41,681</u>
Total assets	31,483	20,682	70,886	70,708
Long-term debt outstanding	1,074	1,157	16,014	13,543
Other liabilities	<u>9,028</u>	<u>7,940</u>	<u>3,258</u>	<u>3,569</u>
Total liabilities	10,102	9,097	19,272	17,112
Net position				
Invested in capital assets, net of related debt	11,670	9,260	27,894	28,138
Restricted	1,573	1,784	1,035	1,114
Unrestricted	<u>8,138</u>	<u>541</u>	<u>22,685</u>	<u>24,345</u>
Total net position	<u>\$ 21,381</u>	<u>\$ 11,585</u>	<u>\$ 51,614</u>	<u>\$ 53,597</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net position during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2014	2013	2014	2013
Revenue				
Property taxes	\$ 3,648	\$ 3,662	\$ -	\$ -
In lieu of taxes	2,387	2,120	-	-
Special assessments	-	3	-	-
Licenses and permits	129	105	-	-
Grants	623	472	409	154
State shared revenues	1,703	1,660	-	-
Charges for services	1,337	1,228	29,365	28,313
Fines and forfeits	29	28	-	-
Investment income	334	312	662	(797)
Administrative reim.	926	948	-	-
Other	521	300	733	585
Debt proceeds	-	-	-	-
Transfers	4,920	(80)	(4,920)	80
Total revenue	16,557	10,758	26,249	28,335
Program expenses				
General government	1,737	1,652	-	-
Public safety	4,142	4,051	-	-
Public works	3,678	2,322	-	-
Recreation and culture	1,625	1,607	-	-
Health and welfare	59	64	-	-
Capital outlay	268	192	-	-
Debt service	97	110	-	-
Electric system	-	-	19,642	20,045
Sewer system	-	-	1,442	1,411
Water system	-	-	798	658
Other	-	-	84	-
In lieu of taxes	-	-	2,387	2,120
Depreciation	-	-	3,057	2,983
Interest expense	-	-	521	478
Total expenses	11,606	9,998	27,931	27,695
Excess (Deficiency)	\$ 4,951	\$ 760	\$ (1,682)	\$ 640

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net position as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues				
Program revenues				
Charges for services	\$ 1,954	\$ 1,847	\$ 29,615	\$ 29,647
Operating grants and contributions	1,205	963	-	-
Capital grants and contributions	1,620	328	409	154
General revenues				
Property taxes	3,648	3,662	-	-
State shared revenues	961	935	-	-
Unrestricted investment earnings	350	325	662	(791)
Miscellaneous	495	753	483	285
Payments in lieu of taxes	2,387	2,120	-	-
Transfers	<u>5,876</u>	<u>(80)</u>	<u>(5,876)</u>	<u>80</u>
Total revenues	18,496	10,853	25,293	29,375
Expenses				
General government	2,207	2,269	-	-
Public safety	3,823	3,981	-	-
Public works	2,540	2,067	-	-
Recreation and cultural	1,688	1,646	-	-
Unallocated	59	64	-	-
Interest on long-term debt	51	48	-	-
Electric system	-	-	23,741	23,889
Sewer system	-	-	2,880	2,779
Water system	-	-	1,226	1,027
Other	<u>-</u>	<u>-</u>	<u>84</u>	<u>1,088</u>
Total expenses	<u>10,368</u>	<u>10,075</u>	<u>27,931</u>	<u>28,783</u>
Change in net position	<u>\$ 8,128</u>	<u>\$ 778</u>	<u>\$ (2,638)</u>	<u>\$ 592</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2014, the net position of governmental activities increased by \$8,127,902 or 61.3 percent of beginning net position. This increase was primarily the result of a City Commission approved operating transfer from the Electric Utility Fund to the Capital Projects Fund in the amount of \$5,000,000.

Business-Type Activities

For the year ended September 30, 2014, the net position of business-type activities decreased by \$2,638,290 or 4.9 percent of beginning net position. This decrease was comprised of the following by specific activity:

	Increase (Decrease)	
	<u>2014</u>	<u>2013</u>
Electric system	\$ (2,535,022)	\$ (436,256)
Sewer system	647,923	528,771
Water system	288,081	545,869
Other	<u>(1,039,272)</u>	<u>(46,428)</u>
Total	<u>\$ (2,638,290)</u>	<u>\$ 591,956</u>

The Electric system's decrease in net position of \$2,535,022 is up from the prior year decrease of \$436,256 primarily due to an increase in operating profit of \$1,162,000 and a transfer out of \$5,000,000.

The Sewer system's increase in net position of \$647,923 is up from the prior year increase of \$528,771 primarily due to a decrease in operating profit of \$97,000 and an increase in capital contributions of \$212,130. The City continues to increase utility rates in an attempt to improve the Sewer system's net position.

The Water system's increase in net assets of \$288,081 is down from the prior year increase of \$545,869 primarily due to a decrease in operating profit of \$193,000 and a decrease in capital contributions of \$67,792. The City continues to increase utility rates in an attempt to improve the Water system's net position.

The Other decrease in net assets of \$1,039,272 included the transfer of a portion of the Internal Service Funds from Business-Type Activities to Governmental Activities in the amount of \$956,246.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Component Units

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

The City's Funds

Our analysis of the City's major funds begins on page 16, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2014 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Municipal Street/Sidewalk Improvement Fund, and Capital Project Fund.

The General fund pays for most of the City's governmental services. The primary services provided include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes, state shared revenues, and an administrative reimbursement charge to other funds and City operations.

The Major Street Fund and Local Street Fund are funded primarily from State Act 51 revenue sharing and a County wide tax mileage. The Municipal Street/Sidewalk Improvement Fund is funded primarily by restricted property taxes. The primary services provided are the construction and maintenance of major and local streets.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted an increase of \$1,455 in the original budget and a decrease of \$12,455 in the amended budget. Actual operating results ended up as an increase in fund balance of \$558,940.

The original budget was amended for:

Increase in grant revenues	\$ 120,225
Decrease in general government expenditures	4,970
Decrease in public works expenditures	6,000
Decrease in public safety expenditures	137,120
Increase in Community development expenditures	245,000
Increase in operating transfers out	10,000

Actual revenues ended the year \$10,093 over the amended budget or 0.1 percent.

Actual expenditures ended the year \$561,302 under the amended budget or 8.3 percent.

There were no significant budget-to-actual differences.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

During the year ended September 30, 2014, the total capital assets of the City increased by \$8,802,000. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$978,000, which was \$110,163 financed with capital grant contributions and the balance funded internally.

The Sewer Utility System capital assets increased by \$4,036,000, which was \$298,409 financed with capital grant contributions and \$3,552,267 financed with revenue bond debt receipts and the balance financed internally.

The Water Utility System capital assets increased by \$531,000, which was financed internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$330,000 which was financed with built up reserves.

Governmental capital assets increased in total by \$2,927,000. \$1,859,000 was for street construction which was \$666,000 funded by federal and state grants and the balance funded internally. \$859,000 was for airport runway rehab which was \$814,000 funded by federal and state grants and the balance funded internally. \$89,000 was for parking lot construction which was \$23,000 funded by local grant and the balance funded internally. \$87,000 was for auditorium stage lighting and sound system which was funded by local grants. \$33,000 was for fitness equipment which was funded by local grants.

During the year ended September 30, 2014, the total debt obligations of the City decreased by principal payments of \$1,556,529. Total debt obligations at September 30, 2014 amounted to \$17,087,553. On September 17, 2013, the City issued a \$3,800,000 Sanitary Sewer System Improvement Revenue Bond with the Michigan Finance Authority. The entire \$3,800,000 was drawn down during the year ended September 30, 2014. On December 12, 2013, the City issued a \$1,700,000 Sanitary Sewer System Improvement Revenue Bond with the Michigan Finance Authority. \$143,890 was drawn down during the year ended September 30, 2014.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Sturgis is \$24,600,000 which is significantly in excess of the City's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

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

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

During the ensuing fiscal year, the City will be investing in several capital projects. The first project, funded primarily by the Storm Water Asset Management and Wastewater Grant Program, will include development of an asset management plan for the wastewater treatment plant and system. Other major capital projects include construction of an electrical line extension and new substation to service customers and provide for future service capacity as well as implementation of distribution automation technology. Improving City streets remains a high priority for the Commission and several projects are budgeted which are funded by a variety of resources including a new dedicated street millage, reserves and available State grants.

The City Commission has adopted a conservative budget for 2014-2015. This includes a decrease in fund balance for all governmental funds of \$196,316 or 3.7 percent of total beginning fund balances and maintenance of the City’s current below-maximum tax levy. The City has maintained stable financial operations and strong general fund reserves which provide flexibility in the wake of uncertain economic times and legislative actions. Because of the difficult economic climate during the last several years, the City has continued to address a challenging budget that includes decreasing revenue and increasing expenditures.

The City is anticipating a slight decrease in property tax revenue of approximately two percent due to lower property valuations. The property tax base consists of 40 percent residential, 43 percent industrial and 17 percent commercial. State revenue sharing is projected to be up 2.9 percent from the previous year. The PILOT, which is paid to the General Fund from the utility funds, is down slightly, due to level utility revenue in 2013. Investment earnings are expected to remain at current levels due to continued low interest rate of return.

The 2014-2015 budget year includes maintaining total employee costs near current levels. This has been accomplished by evaluating vacant positions, investigating options to decrease benefit costs, implementing cost sharing methods, and searching for operational efficiencies with minimal impacts to the level of customer service.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City's charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mils on the taxable value of each property. Since 2007, the City has levied an operating millage of 10.0285 mils, which compares favorably to other like cities in southwest Michigan and is the lowest levied by the City since 1967. For 2015, the inflation rate multiplier which is applied to taxable values is 1.6 percent compared to 2.4 percent in 2014. Further decreases in revenue are anticipated in 2015 due to elimination of personal property tax for small businesses. In May of 2013, the City voters approved a three mil dedicated street millage to provide for ten years of funding for street and sidewalk improvements.

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

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's Controller's office at 130 N. Nottawa, Sturgis, Michigan 49091.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS				
Cash and investments	\$ 14,547,140	\$ 19,526,209	\$ 34,073,349	\$ 133,036
Receivables, net	529,207	3,486,677	4,015,884	297,377
Receivables, long-term portion	613,591	1,126,613	1,740,204	9,155,000
Internal balances	-	-	-	-
Inventories, prepaid items and other assets	183,066	1,076,355	1,259,421	100
Restricted assets	883,789	1,007,247	1,891,036	-
Net pension asset	1,982,161	755,200	2,737,361	-
Capital assets - net	<u>12,744,425</u>	<u>43,908,097</u>	<u>56,652,522</u>	<u>335,402</u>
Total assets	31,483,379	70,886,398	102,369,777	9,920,915
LIABILITIES				
Accounts payable	1,830,172	1,862,672	3,692,844	2,216
Accrued and other liabilities	173,052	665,195	838,247	1,150
Unearned revenue	64,612	-	64,612	1,600
Debt obligations:				
Due within one year	84,523	1,705,775	1,790,298	351,496
Due in more than one year	989,364	14,307,891	15,297,255	9,634,720
Compensated absences	538,283	280,000	818,283	-
Other postemployment benefits	<u>3,927,952</u>	<u>450,000</u>	<u>4,377,952</u>	<u>-</u>
Total liabilities	<u>7,607,958</u>	<u>19,271,533</u>	<u>26,879,491</u>	<u>9,991,182</u>
Deferred inflows of resources				
Unavailable revenue	<u>2,494,268</u>	<u>-</u>	<u>2,494,268</u>	<u>76,959</u>
NET POSITION				
Invested in capital assets, net of related debt	11,670,538	27,894,431	39,564,969	186,047
Restricted:				
Debt service	-	959,000	959,000	-
Streets	689,681	-	689,681	-
Cemetery trust	883,789	-	883,789	-
Other purposes	-	76,332	76,332	-
Unrestricted (deficit)	<u>8,137,145</u>	<u>22,685,102</u>	<u>30,822,247</u>	<u>(333,273)</u>
Total net position (deficit)	<u>\$ 21,381,153</u>	<u>\$ 51,614,865</u>	<u>\$ 72,996,018</u>	<u>\$ (147,226)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 2,206,575	\$ 586,316	\$ 144,567	\$ -
Public safety	3,822,494	204,739	39,671	-
Public works	2,540,157	279,792	894,878	1,480,466
Recreation and cultural	1,687,534	882,728	125,764	139,341
Unallocated	58,984	-	-	-
Interest on long-term debt	<u>51,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	10,366,824	1,953,575	1,204,880	1,619,807
Business-type activities:				
Electric	23,740,714	24,921,755	-	110,163
Sanitary sewer	2,880,133	3,209,790	-	298,409
Water	1,226,327	1,482,864	-	-
Other	<u>84,046</u>	<u>958</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>27,931,220</u>	<u>29,615,367</u>	<u>-</u>	<u>408,572</u>
Total primary government	<u>\$ 38,298,044</u>	<u>\$ 31,568,942</u>	<u>\$ 1,204,880</u>	<u>\$ 2,028,379</u>
Component units	<u>\$ 331,618</u>	<u>\$ 252,754</u>	<u>\$ 37,961</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State shared revenues
 Unrestricted investment earnings (loss)
 Miscellaneous
 Payments in lieu of taxes
 Transfers - internal

Total general revenues and transfers

CHANGE IN NET POSITION

NET POSITION – BEGINNING OF YEAR, AS RESTATED

NET POSITION – END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (1,475,692)	\$ -	\$ (1,475,692)	\$ -
(3,578,084)	-	(3,578,084)	-
114,979	-	114,979	-
(539,701)	-	(539,701)	-
(58,984)	-	(58,984)	-
<u>(51,080)</u>	<u>-</u>	<u>(51,080)</u>	<u>-</u>
(5,588,562)	-	(5,588,562)	-
-	1,291,204	1,291,204	-
-	628,066	628,066	-
-	256,537	256,537	-
<u>-</u>	<u>(83,088)</u>	<u>(83,088)</u>	<u>-</u>
<u>-</u>	<u>2,092,719</u>	<u>2,092,719</u>	<u>-</u>
(5,588,562)	2,092,719	(3,495,843)	<u>\$</u>
			<u>(40,903)</u>
3,647,501	-	3,647,501	67,153
960,612	-	960,612	-
350,215	661,816	1,012,031	85
494,790	483,421	978,211	1,844
2,387,100	-	2,387,100	-
<u>5,876,246</u>	<u>(5,876,246)</u>	<u>-</u>	<u>-</u>
<u>13,716,464</u>	<u>(4,731,009)</u>	<u>8,985,455</u>	<u>69,082</u>
8,127,902	(2,638,290)	5,489,612	28,179
<u>13,253,251</u>	<u>54,253,155</u>	<u>67,506,406</u>	<u>(175,405)</u>
<u>\$ 21,381,153</u>	<u>\$ 51,614,865</u>	<u>\$ 72,996,018</u>	<u>\$ (147,226)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,994,549	\$ 52,875	\$ 6,388
Investments	3,600,000	-	-
Receivables			
Accounts	42,059	1,389	-
Property taxes	42,148	-	-
Special assessments	94	22,912	590,679
Interest	5,471	-	-
Due from other funds	-	-	-
Due from other governmental units	126,063	91,711	33,351
Prepaid items	-	-	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,810,384</u>	<u>\$ 168,887</u>	<u>\$ 630,418</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 120,818	\$ 4,011	\$ 2,569
Due to other funds	-	-	-
Accrued expenses	144,012	4,533	2,854
Unearned revenue	9,798	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	274,628	8,544	5,423
Deferred inflows of resources			
Unavailable revenue	2,455,682	22,912	590,679
FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	137,431	34,316
Committed	-	-	-
Unassigned	3,080,074	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>3,080,074</u>	<u>137,431</u>	<u>34,316</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,810,384</u>	<u>\$ 168,887</u>	<u>\$ 630,418</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Municipal Street/ Sidewalk Improvement Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,078,015	\$ 940,335	\$ 1,360,812	\$ 421,191	\$ 6,854,165
-	-	2,500,000	712,306	6,812,306
-	-	-	64,698	108,146
-	50,976	-	-	93,124
-	-	-	-	613,685
-	-	-	-	5,471
-	-	-	-	-
-	50,763	-	-	301,888
-	-	-	30,700	30,700
-	-	-	50,427	50,427
<u>\$ 2,078,015</u>	<u>\$ 1,042,074</u>	<u>\$ 3,860,812</u>	<u>\$ 1,279,322</u>	<u>\$ 14,869,912</u>
\$ 755,751	\$ 485,554	\$ -	\$ 54,302	\$ 1,423,005
-	-	-	-	-
-	-	-	19,691	171,090
-	-	-	54,814	64,612
755,751	485,554	-	128,807	1,658,707
-	38,586	-	-	3,107,859
-	-	-	81,127	81,127
-	517,934	-	883,789	1,573,470
1,322,264	-	3,860,812	185,599	5,368,675
-	-	-	-	3,080,074
<u>1,322,264</u>	<u>517,934</u>	<u>3,860,812</u>	<u>1,150,515</u>	<u>10,103,346</u>
<u>\$ 2,078,015</u>	<u>\$ 1,042,074</u>	<u>\$ 3,860,812</u>	<u>\$ 1,279,322</u>	<u>\$ 14,869,912</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2014**

Total governmental fund balances \$ 10,103,346

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

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

Governmental capital assets	\$ 20,889,705	
Less accumulated depreciation	<u>(9,340,616)</u>	11,549,089

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay current expenditures. Those assets are offset by unavailable revenues in the governmental funds and, therefore, not included in fund balance.

Unavailable special assessments		613,591
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Certain assets do not represent current financial resources and therefore are not reported in the funds.

Net pension asset		1,982,161
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Notes payable		(809,053)
Compensated absences		(538,283)
Other postemployment benefits		(3,927,952)

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

Net position of the internal service funds		<u>2,408,254</u>
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Net position of governmental activities		<u>\$ 21,381,153</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
REVENUE			
Taxes	\$ 2,648,608	\$ -	\$ 250,339
Licenses and permits	75,767	-	-
Federal grants	159,567	-	-
State grants	4,671	132,694	20,159
State shared revenue	960,612	543,039	198,986
Charges for services	124,089	-	-
Fines and forfeits	28,909	-	-
Investment income	319,192	34	49
Contributions	20,000	-	-
Payments in lieu of taxes	2,387,100	-	-
Administrative reimbursement	925,624	-	-
Other	<u>183,054</u>	<u>1,123</u>	<u>4,583</u>
Total revenue	7,837,193	676,890	474,116
EXPENDITURES			
Legislative	38,942	-	-
General government	1,191,077	-	-
Public safety	4,027,212	-	-
Public works	344,739	675,005	506,822
Health and welfare	58,984	-	-
Recreation and cultural	325,958	-	-
Community development	181,821	-	-
Capital outlay	-	-	-
Debt services	<u>19,790</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,188,523</u>	<u>675,005</u>	<u>506,822</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,648,670	1,885	(32,706)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>(1,089,730)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,089,730)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	558,940	1,885	(32,706)
FUND BALANCE – BEGINNING OF YEAR	<u>2,521,134</u>	<u>135,546</u>	<u>67,022</u>
FUND BALANCE – END OF YEAR	<u>\$ 3,080,074</u>	<u>\$ 137,431</u>	<u>\$ 34,316</u>

See accompanying notes to the financial statements

Municipal Street Fund	Municipal Street/ Sidewalk Improvement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 748,554	\$ -	\$ -	\$ 3,647,501
-	-	-	52,846	128,613
-	-	-	-	159,567
255,341	50,763	-	-	463,628
-	-	-	-	1,702,637
-	-	-	1,213,402	1,337,491
-	-	-	-	28,909
1,199	617	10,812	2,103	334,006
-	-	-	265,105	285,105
-	-	-	-	2,387,100
-	-	-	-	925,624
-	-	-	48,480	237,240
<u>256,540</u>	<u>799,934</u>	<u>10,812</u>	<u>1,581,936</u>	<u>11,637,421</u>
-	-	-	-	38,942
-	-	-	324,453	1,515,530
-	-	-	115,057	4,142,269
870,599	976,568	-	303,947	3,677,680
-	-	-	-	58,984
-	-	-	1,299,045	1,625,003
-	-	-	-	181,821
-	-	-	268,164	268,164
-	-	-	77,522	97,312
<u>870,599</u>	<u>976,568</u>	<u>-</u>	<u>2,388,188</u>	<u>11,605,705</u>
(614,059)	(176,634)	10,812	(806,252)	31,716
1,400,000	-	5,250,000	766,890	7,416,890
-	-	(1,400,000)	(7,160)	(2,496,890)
<u>1,400,000</u>	<u>-</u>	<u>3,850,000</u>	<u>759,730</u>	<u>4,920,000</u>
785,941	(176,634)	3,860,812	(46,522)	4,951,716
<u>536,323</u>	<u>694,568</u>	<u>-</u>	<u>1,197,037</u>	<u>5,151,630</u>
<u>\$ 1,322,264</u>	<u>\$ 517,934</u>	<u>\$ 3,860,812</u>	<u>\$ 1,150,515</u>	<u>\$ 10,103,346</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Net change in fund balances - total governmental funds \$ 4,951,716

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

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

Net effect of asset disposals	26,596
Contributed capital assets	1,174,362
Expenditures for capital assets	1,752,705
Depreciation expense	(895,423)

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

Decrease of special assessments	(41)
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Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan but the principal is an expenditure in the governmental funds, repayment reduces long-term liabilities in the statement of assets.

Proceeds from debt obligations	-
Principal payments on debt obligations	58,113

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

Increase in net pension asset	287,654
Increase in the accrual for compensated absences	(7,428)
Decrease in the accrual for other postemployment benefits	30,774

Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Net change from internal service funds related to governmental activities	<u>748,874</u>
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Change in net position of governmental activities \$ 8,127,902

See accompanying notes to the financial statements

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014**

<u>ASSETS</u>	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
CURRENT ASSETS		
Cash and equivalents	\$ 157,862	\$ 350,057
Investments	17,164,087	1,291,000
Receivables		
Notes - Current portion	26,970	-
Accounts	2,821,685	351,082
Interest	89,364	-
Grant	-	-
Inventory	948,807	68,294
Prepaid items	-	-
Due from other funds	-	-
Advances due from other funds	<u>38,896</u>	<u>-</u>
Total current assets	21,247,671	2,060,433
NONCURRENT ASSETS		
Restricted assets	898,247	109,000
Notes receivable	215,754	-
Special assessments	122,598	363,981
Advances due from other funds	-	-
Other assets	84,436	-
Net pension asset	558,700	138,800
Capital assets, net of depreciation	<u>20,027,231</u>	<u>18,636,607</u>
Total noncurrent assets	<u>21,906,966</u>	<u>19,248,388</u>
Total assets	43,154,637	21,308,821

Continued on next page

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 61,591	\$ 1,612	\$ 571,122	\$ 764,458
500,000	-	18,955,087	1,000,000
-	5,645	32,615	-
153,035	-	3,325,802	20,484
-	-	89,364	-
-	-	-	-
59,254	-	1,076,355	3,845
-	-	-	98,094
-	-	-	-
-	-	38,896	-
<u>773,880</u>	<u>7,257</u>	<u>24,089,241</u>	<u>1,886,881</u>
-	-	1,007,247	-
-	20,828	236,582	-
319,016	-	805,595	-
-	-	-	-
-	-	84,436	-
57,700	-	755,200	-
<u>5,244,259</u>	<u>20,828</u>	<u>43,908,097</u>	<u>1,195,336</u>
<u>5,620,975</u>	<u>20,828</u>	<u>46,797,157</u>	<u>1,195,336</u>
6,394,855	28,085	70,886,398	3,082,217

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION - Continued
 SEPTEMBER 30, 2014**

<u>LIABILITIES</u>	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
CURRENT LIABILITIES		
Current portion of long-term debt	754,639	883,068
Accounts payable	1,598,024	158,958
Accrued expenses	945,140	189,075
Customer deposits	196,031	-
Due to other funds	-	-
Advances due to other funds	-	-
Unearned revenue	-	-
	3,493,834	1,231,101
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	3,402,822	9,985,324
Advances due to other funds	-	-
	3,402,822	9,985,324
Total noncurrent liabilities	3,402,822	9,985,324
Total liabilities	6,896,656	11,216,425
NET POSITION		
Invested in capital assets, net of related debt	15,869,770	7,768,215
Restricted	898,247	109,000
Unrestricted	19,489,964	2,215,181
Total net position	\$ 36,257,981	\$ 10,092,396

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
68,068	-	1,705,775	25,378
66,794	-	1,823,776	407,167
64,949	-	1,199,164	1,962
-	-	196,031	-
-	-	-	-
38,896	-	38,896	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
238,707	-	4,963,642	434,507
919,745	-	14,307,891	239,456
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>919,745</u>	<u>-</u>	<u>14,307,891</u>	<u>239,456</u>
1,158,452	-	19,271,533	673,963
4,256,446	-	27,894,431	930,502
-	28,085	1,035,332	-
<u>979,957</u>	<u>-</u>	<u>22,685,102</u>	<u>1,477,752</u>
<u>\$ 5,236,403</u>	<u>\$ 28,085</u>	<u>\$ 51,614,865</u>	<u>\$ 2,408,254</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN NET POSITION
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
OPERATING REVENUE		
Charges for services	\$ 24,738,185	\$ 3,161,511
Interest revenue	-	-
Other	<u>183,570</u>	<u>48,279</u>
Total operating revenue	24,921,755	3,209,790
OPERATING EXPENSES		
Purchased power	14,822,172	-
Material, maintenance and other	2,542,816	1,096,253
General and administrative	2,277,594	345,250
Payments in lieu of taxes	2,098,980	197,280
Depreciation	<u>1,699,152</u>	<u>1,051,768</u>
Total operating expenses	<u>23,440,714</u>	<u>2,690,551</u>
OPERATING INCOME (LOSS)	1,481,041	519,239
NONOPERATING REVENUE (EXPENSES)		
Investment income (loss)	640,666	13,538
Interest expense	(300,000)	(189,582)
(Loss) Gain on sale of assets	-	-
Other	<u>453,108</u>	<u>6,319</u>
Total non-operating revenue (expenses)	<u>793,774</u>	<u>(169,725)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,274,815	349,514
CAPITAL CONTRIBUTIONS	110,163	298,409
TRANSFERS		
Transfers in	80,000	-
Transfers out	<u>(5,000,000)</u>	<u>-</u>
Total transfers	<u>(4,920,000)</u>	<u>-</u>
CHANGE IN NET POSITION	(2,535,022)	647,923
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>38,793,003</u>	<u>9,444,473</u>
NET POSITION - ENDING OF YEAR	<u>\$ 36,257,981</u>	<u>\$ 10,092,396</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,465,366	\$ -	\$ 29,365,062	\$ 2,651,213
-	958	958	-
<u>17,498</u>	<u>-</u>	<u>249,347</u>	<u>359,846</u>
1,482,864	958	29,615,367	3,011,059
-	-	14,822,172	-
454,944	-	4,094,013	2,357,003
343,264	84,046	3,050,154	606,953
90,840	-	2,387,100	-
<u>305,674</u>	<u>-</u>	<u>3,056,594</u>	<u>294,655</u>
<u>1,194,722</u>	<u>84,046</u>	<u>27,410,033</u>	<u>3,258,611</u>
288,142	(83,088)	2,205,334	(247,552)
7,550	62	661,816	16,209
(31,605)	-	(521,187)	(11,900)
-	-	-	35,871
<u>23,994</u>	<u>-</u>	<u>483,421</u>	<u>-</u>
<u>(61)</u>	<u>62</u>	<u>624,050</u>	<u>40,180</u>
288,081	(83,026)	2,829,384	(207,372)
-	-	408,572	-
-	-	80,000	-
<u>-</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>(4,920,000)</u>	<u>-</u>
288,081	(83,026)	(1,682,044)	(207,372)
<u>4,948,322</u>	<u>111,111</u>	<u>53,296,909</u>	<u>2,615,626</u>
<u>\$ 5,236,403</u>	<u>\$ 28,085</u>	<u>\$ 51,614,865</u>	<u>\$ 2,408,254</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 24,291,257	\$ 3,174,591
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	183,570	48,279
Payments to employees and suppliers	<u>(22,320,676)</u>	<u>(1,503,854)</u>
Net cash provided by (used for) operating activities	2,154,151	1,719,016
Cash flows from non-capital financing activities		
Contributions and other receipts	453,108	6,319
Transfers in	80,000	-
Transfers out	<u>(5,000,000)</u>	<u>-</u>
Net cash provided by non-capital financing activities	(4,466,892)	6,319
Cash flows from capital and related financing activities		
Principal paid on debt	(733,085)	(672,727)
Interest paid on debt	(232,114)	(189,738)
Receipts from interfund advances	124,094	-
Payments against interfund advances	-	-
Customer deposits	9,675	-
Acquisition of capital assets	(978,271)	(4,035,637)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	110,163	298,409
Proceeds from issuance of debt	<u>-</u>	<u>3,943,890</u>
Net cash provided by (used for) capital and related financing activities	(1,699,538)	(655,803)
Cash flows from investing activities		
Interest received on investments	650,085	13,538
Purchase of investments	-	(900,000)
Proceeds from maturity of investments	2,876,299	-
Change in net pension asset	(110,800)	13,800
Collections of loans receivable	<u>43,637</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>3,459,221</u>	<u>(872,662)</u>
Net increase (decrease) in cash	(553,058)	196,870
Cash - beginning of year	<u>710,920</u>	<u>153,187</u>
Cash - ending of year	<u>\$ 157,862</u>	<u>\$ 350,057</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,480,142	\$ -	\$ 28,945,990	\$ 346,760
-	-	-	-
-	5,485	5,485	-
-	-	-	2,651,213
-	958	958	-
17,498	-	249,347	-
<u>(845,060)</u>	<u>(84,046)</u>	<u>(24,753,636)</u>	<u>(2,814,846)</u>
652,580	(77,603)	4,448,144	183,127
32,744	-	492,171	-
-	-	80,000	-
<u>-</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>
32,744	-	(4,427,829)	-
(67,727)	-	(1,473,539)	(24,877)
(31,761)	-	(453,613)	(11,900)
-	-	124,094	-
(124,094)	-	(124,094)	-
-	-	9,675	-
(531,077)	-	(5,544,985)	(329,699)
-	-	-	35,871
-	-	408,572	-
<u>-</u>	<u>-</u>	<u>3,943,890</u>	<u>-</u>
(754,659)	-	(3,110,000)	(330,605)
7,550	62	671,235	16,209
(200,000)	-	(1,100,000)	-
-	-	2,876,299	-
(1,100)	-	(98,100)	-
<u>-</u>	<u>-</u>	<u>43,637</u>	<u>-</u>
<u>(193,550)</u>	<u>62</u>	<u>2,393,071</u>	<u>16,209</u>
(262,885)	(77,541)	(696,614)	(131,269)
<u>324,476</u>	<u>79,153</u>	<u>1,267,736</u>	<u>895,727</u>
<u>\$ 61,591</u>	<u>\$ 1,612</u>	<u>\$ 571,122</u>	<u>\$ 764,458</u>

CITY OF STURGIS
PROPRIETARY FUNDS
STATEMENT CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2014

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 1,481,041	\$ 519,239
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,699,152	1,051,768
Provision for bad debts	-	-
Provision for purchased power adjustment	-	-
(Increase) decrease in:		
Accounts receivable	(446,928)	13,080
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	(194,908)	9,127
Prepaid items	-	-
Due from other funds	-	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	(343,653)	121,856
Accrued expenses	(40,553)	3,946
Due to other funds	-	-
Unearned revenue	-	-
Net cash provided by (used for) operating activities	<u>\$ 2,154,151</u>	<u>\$ 1,719,016</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Economic Development Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 288,142	\$ (83,088)	\$ 2,205,334	\$ (247,552)
305,674	-	3,056,594	294,655
-	-	-	-
-	-	-	-
14,773	-	(419,075)	(13,086)
-	5,485	5,485	-
-	-	-	-
-	-	-	-
(1,839)	-	(187,620)	184
-	-	-	139,666
-	-	-	-
-	-	-	-
52,799	-	(168,998)	8,771
(6,969)	-	(43,576)	489
-	-	-	-
-	-	-	-
<u>\$ 652,580</u>	<u>\$ (77,603)</u>	<u>\$ 4,448,144</u>	<u>\$ 183,127</u>

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2014**

	Pension Trust Fund	Other Postemployment Benefit Trust Fund	Agency Fund
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,750	\$ -	\$ 354,930
Investments at market value			
Money market funds	1,526,551	3,147,029	-
U.S. Government agencies	5,115,049	-	-
Mutual funds	5,617,826	-	-
Common and preferred stock	20,597,366	-	-
Accounts receivable	-	-	-
Dividends and interest receivable	<u>63,175</u>	<u>-</u>	<u>-</u>
Total assets	32,921,717	3,147,029	354,930
<u>LIABILITIES</u>			
Accounts payable	-	-	-
Due to other governmental units	-	-	300,414
Other liabilities	<u>-</u>	<u>-</u>	<u>54,516</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>354,930</u>
<u>NET POSITION</u>			
Held in trust for			
pension benefits and post			
employment benefits	<u>\$ 32,921,717</u>	<u>\$ 3,147,029</u>	<u>\$ -</u>

See accompanying notes to the financial statements

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Pension Trust Fund</u>	<u>Other Postemployment Benefit Trust Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 605,570	\$ 735,500
Employee	<u>115,200</u>	<u>-</u>
Total contributions	720,770	735,500
Investment income:		
Interest and dividends	902,786	-
Net appreciation (depreciation) in fair value of investments	2,208,740	215,911
Investment expenses	<u>(206,450)</u>	<u>-</u>
Total investment income (loss)	<u>2,905,076</u>	<u>215,911</u>
Total additions	3,625,846	951,411
DEDUCTIONS		
Benefits	1,515,533	-
Administrative expense	<u>40,423</u>	<u>-</u>
Total deductions	<u>1,555,956</u>	<u>-</u>
Net increase (decrease)	2,069,890	951,411
Net position held in trust for pension benefits and postemployment benefits		
Beginning of year	<u>30,851,827</u>	<u>2,195,618</u>
End of year	<u>\$ 32,921,717</u>	<u>\$ 3,147,029</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 91,663	\$ -
Accounts receivable	7,377	-
Prepaid assets	100	-
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets		
Other capital assets, net of depreciation	<u>335,402</u>	<u>-</u>
Total assets	434,542	-
 <u>LIABILITIES</u>		
Accounts payable	2,216	-
Rental deposits	1,150	-
Unearned revenue	1,600	-
Debt Obligations:		
Due within one year	10,548	28,724
Due in more than one year	<u>138,807</u>	<u>278,701</u>
Total liabilities	<u>154,321</u>	<u>307,425</u>
Deferred inflows of resources		
Unavailable revenue	<u>38,966</u>	<u>-</u>
 NET POSITION		
Invested in capital assets, net of related debt	186,047	-
Unrestricted (deficit)	<u>55,208</u>	<u>(307,425)</u>
Total net position (deficit)	<u>\$ 241,255</u>	<u>\$ (307,425)</u>

See accompanying notes to the financial statements

<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ 40,104	\$ 1,269	\$ 133,036
-	-	7,377
-	-	100
-	290,000	290,000
-	9,155,000	9,155,000
-	-	335,402
40,104	9,446,269	9,920,915
-	-	2,216
-	-	1,150
-	-	1,600
22,224	290,000	351,496
62,212	9,155,000	9,634,720
84,436	9,445,000	9,991,182
37,993	-	76,959
-	-	186,047
(82,325)	1,269	(333,273)
\$ (82,325)	\$ 1,269	\$ (147,226)

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
Downtown Development Authority	\$ 101,543	\$ 22,679	\$ 4,626
Brownfield Redevelopment Authority	-	-	33,335
Local Development Finance Authority	-	-	-
Building Authority	<u>230,075</u>	<u>230,075</u>	<u>-</u>
Total discretely presented component units	<u>\$ 331,618</u>	<u>\$ 252,754</u>	<u>\$ 37,961</u>

General revenues:

Captured property taxes
Unrestricted
investment earnings
Miscellaneous

Total general revenues

Change in net position

Net position (deficit) - beginning of year

Net position (deficit) - end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Change in Net Position

<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ (74,238)	\$ -	\$ -	\$ -	\$ (74,238)
-	33,335	-	-	33,335
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(74,238)	33,335	-	-	(40,903)
48,668	-	18,485	-	67,153
72	-	13	-	85
<u>575</u>	<u>-</u>	<u>-</u>	<u>1,269</u>	<u>1,844</u>
<u>49,315</u>	<u>-</u>	<u>18,498</u>	<u>1,269</u>	<u>69,082</u>
(24,923)	33,335	18,498	1,269	28,179
<u>266,178</u>	<u>(340,760)</u>	<u>(100,823)</u>	<u>-</u>	<u>(175,405)</u>
<u>\$ 241,255</u>	<u>\$ (307,425)</u>	<u>\$ (82,325)</u>	<u>\$ 1,269</u>	<u>\$ (147,226)</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sturgis is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Sturgis operates under a Commission - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

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

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City of Sturgis (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units

- a. The Downtown Development Authority was created as a tax-increment financing (TIF) district to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the City elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The City reports the following major funds:

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street and Trunkline Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

Local Street Fund - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Municipal Street/Sidewalk Improvement Fund - To account for voter approved property tax mileage to fund improvements to streets and sidewalks within the city.

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

Enterprise Funds

Electric Fund - To account for user charges and for operating expenses and debt service of the City's electric utility system.

Water Fund - To account for user charges and for operating expenses and debt service of the City's water system.

Sewer Fund - To account for user charges and for operating expenses and debt service of the City's sewer system.

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Permanent Funds - The permanent funds are used to account for the assets of legal trust agreements held by the City as trustee for which only the interest income on the principal may be spent.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

Agency Funds - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Pension Trust Funds - The pension trust funds are used to account for the assets held by the City as trustee for the employee retirement systems.

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 2014, 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.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government or federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City's pension trust fund is also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents".

In addition, certain City funds including the Pension Trust Fund, Cemetery Trust Fund, and Electric Fund have investments which are separately held from those of other City funds. For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account. Investments with a maturity of greater than one year at the date of purchase are stated at fair value and all other investments are stated at cost or amortized cost.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and unearned revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$11.8894 per \$1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2014, was \$10.0285 per \$1,000 of taxable valuation. The 2013 taxable value of the City was \$242,314,603

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

<u>Depreciable Life-Years</u>	
Land improvements	7-40
Roads and sidewalks	7-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown in the basic financial statements for the City's deposits and investments is as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement caption:			
Primary Government:			
Cash and investments	\$ 13,165,863	\$ 20,907,486	\$ 34,073,349
Restricted assets	1,891,036	-	1,891,036
Component Units:			
Cash and Investments	133,036	-	133,036
Fiduciary Funds:			
Cash and cash equivalents	356,680	-	356,680
Investments	-	36,003,821	36,003,821
Total	\$ 15,546,615	\$ 56,911,307	\$ 72,457,922

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retirement System is also authorized to invest a portion of its assets in stocks that are registered on a national securities exchange and mutual funds of diversified investment companies having assets greater than \$100 million.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2014, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&P Rating</u>
		<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	
* Primary Government						
Michigan Municipal Bonds	\$ 885,835	-	632,962	252,873	-	AAA-AA
Century Bank - Vanguard GNMA Fund- Admiral Shares	241,863					Not Rated
Century Bank - Vanguard Inflation- Protected Securities Fund	111,064					Not Rated
U.S. Government Agencies	<u>19,668,724</u>	563,852	11,801,295	7,303,577	-	AAA-AA
Total Primary Government	<u>20,907,486</u>					
* Pension Trust Fund						
Sturgis Bank and Trust Co.						
Federated Government Obligations						
Tax MDG FD PRIN	1,526,551					Not Rated
U.S. Government Agencies	5,115,049	-	493,670	1,823,154	2,798,225	AAA-AA
PIMCO Fixed Income Series C Instl	2,810,563					Not Rated
PIMCO Fixed Income SHS Series M Instl	2,807,263					Not Rated
Common and Preferred Stocks	<u>20,597,366</u>					N/A
Total Pension Trust Fund	32,856,792					
* OPEB Trust Fund						
Municipal Employee's Retirement System of Michigan						
MERS Established Market Fund	<u>3,147,029</u>					Not Rated
Total Investments	<u>\$ 56,911,307</u>					

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2014, the City had \$13,368,494 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units had \$-0- of bank deposits that were uninsured and uncollateralized. The City and the Component Units believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and the Component Units evaluates each financial institution with which they deposit funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the City's name.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk as identified above. The City's investment policy does not have specific limits in excess of state law on concentration of credit. All investments held at year end are reported above.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE

Receivables in the governmental activities are 54 percent special assessments, 8 percent property tax, 26 percent due from other governments, 11 percent accounts receivable, and 1 percent accrued interest. Business-type activities receivables are 72 percent due from customers, 8 percent loans, 18 percent special assessments, and 2 percent accrued interest.

Accounts receivable of the Electric Fund are reported net of an allowance for uncollectible accounts of \$200,000.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes levied and collected for next fiscal years operation (general fund and municipal street fund)	\$ 2,494,268	\$ -	\$ 2,494,268
Special assessments not yet due (General, major and local street funds)	613,591	-	613,591
Customer deposits for future services/events (general and special revenue funds)	<u>-</u>	<u>64,612</u>	<u>64,612</u>
	<u>\$ 3,107,859</u>	<u>\$ 64,612</u>	<u>\$ 3,172,471</u>

Component Units

Property taxes levied and collected for next fiscal years operation	\$ 76,959	\$ -	\$ 76,959
Grant funds collected in advance of project costs	<u>-</u>	<u>1,600</u>	<u>1,600</u>
	<u>\$ 76,959</u>	<u>\$ 1,600</u>	<u>\$ 78,559</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 4 - FUND BALANCES - GOVERNMENTAL FUNDS

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

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ -	\$ -	\$ 30,700	\$ 30,700
Inventory	<u>-</u>	<u>-</u>	<u>50,427</u>	<u>50,427</u>
	<u>-</u>	<u>-</u>	<u>81,127</u>	<u>81,127</u>
Restricted:				
Streets	-	689,681	-	689,681
Cemetery trust	-	-	883,789	883,789
Drug enforcement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>689,681</u>	<u>883,789</u>	<u>1,573,470</u>
Committed:				
Streets	-	1,322,264	-	1,322,264
Capital projects	-	3,860,812	-	3,860,812
Building Dept.	-	-	37,450	37,450
Housing Dept.	-	-	45,099	45,099
Cemetery	-	-	26,846	26,846
Recreation	-	-	24,497	24,497
Auditorium	-	-	16,398	16,398
Arts Council	-	-	28,285	28,285
Recreation center	-	-	756	756
Airport	<u>-</u>	<u>-</u>	<u>6,268</u>	<u>6,268</u>
	<u>-</u>	<u>5,183,076</u>	<u>185,599</u>	<u>5,368,675</u>
Unassigned	<u>3,080,074</u>	<u>-</u>	<u>-</u>	<u>3,080,074</u>
 Total fund balances - Governmental funds	 <u>\$ 3,080,074</u>	 <u>\$ 5,872,757</u>	 <u>\$ 1,150,515</u>	 <u>\$ 10,103,346</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2014:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
Totals	NONE		NONE
<u>Advances from/to other funds</u>			
Electric	38,896	Water	38,896
Total Primary Government	\$ 38,896		\$ 38,896

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of Internal Service Funds.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2014:

<u>Transfers Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>In</u>
General	\$ 1,089,730	Capital Projects	\$ 250,000
		Building Department	60,000
		Housing Development	50,000
		Cemetery	150,000
		Drug Enforcement	23,000
		Recreation	100,000
		Civic Auditorium - operating	220,000
		Civic Auditorium - debt service	51,730
		Doyle Community Center	25,000
		Airport	80,000
		Electric	<u>80,000</u>
	<u>1,089,730</u>		<u>1,089,730</u>
Capital Projects	<u>1,400,000</u>	Municipal Street	<u>1,400,000</u>
Electric	<u>5,000,000</u>	Capital Projects	<u>5,000,000</u>
Cemetery Trust	<u>7,160</u>	Cemetery	<u>7,160</u>
Total Primary Government	<u>\$ 7,496,890</u>		<u>\$ 7,496,890</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2014, was as follows:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance September 30, 2014</u>
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	3,153,600	1,858,812	-	5,012,412
Land improvements	4,269,769	948,195	-	5,217,964
Buildings and improvements	8,531,976	-	-	8,531,976
Machinery and equipment	1,695,430	321,168	(310,191)	2,326,789
Vehicles	2,749,434	127,591	(898,425)	3,775,450
Office furniture and equipment	<u>389,987</u>	<u>-</u>	<u>-</u>	<u>389,987</u>
Subtotal	20,790,196	3,255,766	(1,208,616)	25,254,578
Accumulated depreciation				
Infrastructure	894,274	450,514	-	1,344,788
Land improvements	3,077,394	153,349	-	3,230,743
Buildings and improvements	3,057,029	238,907	-	3,295,936
Machinery and equipment	1,501,668	102,015	(380,994)	1,984,677
Vehicles	2,040,180	240,706	(565,452)	2,846,338
Office furniture and equipment	<u>369,344</u>	<u>4,587</u>	<u>-</u>	<u>373,931</u>
Subtotal	<u>10,939,889</u>	<u>1,190,078</u>	<u>(946,446)</u>	<u>13,076,413</u>
Net capital assets being depreciated	<u>9,850,307</u>			<u>12,178,165</u>
Net capital assets	<u>\$ 10,416,567</u>			<u>\$ 12,744,425</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 - CAPITAL ASSETS - Continued

	Balance October 1, 2013	Additions	Disposals/ Transfers	Balance Sept. 30, 2014
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in progress	<u>1,603,757</u>	<u>4,255,631</u>	<u>1,165,645</u>	<u>4,693,743</u>
Subtotal	2,180,850	4,255,631	1,165,645	5,270,836
Capital assets, being depreciated:				
Land improvements	1,474,936	-	-	1,474,936
Buildings, improvements and system	99,179,414	2,450,004	-	101,629,418
Machinery and equipment	1,518,113	-	372,428	1,145,685
Vehicles	989,694	-	989,694	-
Office furniture and equipment	<u>25,852</u>	<u>4,995</u>	<u>5,895</u>	<u>24,952</u>
Subtotal	103,188,009	2,454,999	1,368,017	104,274,991
Accumulated depreciation				
Land improvements	866,024	98,330	-	964,354
Buildings, improvements and system	61,493,126	2,939,399	-	64,432,525
Machinery and equipment	577,718	17,807	374,462	221,063
Vehicles	726,487	-	726,487	-
Office furniture and equipment	<u>24,625</u>	<u>1,058</u>	<u>5,895</u>	<u>19,788</u>
Subtotal	<u>63,687,980</u>	<u>3,056,594</u>	<u>1,106,844</u>	<u>65,637,730</u>
Net capital assets being depreciated	<u>39,500,029</u>			<u>38,637,261</u>
Net capital assets	<u>\$ 41,680,879</u>			<u>\$ 43,908,097</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 182,468	Electric	\$ 1,699,152
Public safety	340,570	Sanitary Sewer	1,051,768
Public works	477,880	Water	<u>305,674</u>
Recreation and cultural	<u>189,160</u>		
Total	<u>\$ 1,190,078</u>	Total	<u>\$ 3,056,594</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, 2013	Additions	Disposals	Balance September 30, 2014
Capital assets, being depreciated				
Land improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Buildings and improvements	<u>404,364</u>	<u>-</u>	<u>-</u>	<u>404,364</u>
Subtotal	688,026	-	-	688,026
Accumulated depreciation				
Land improvements	127,720	18,910	-	146,630
Buildings and improvements	<u>185,776</u>	<u>20,218</u>	<u>-</u>	<u>205,994</u>
Subtotal	<u>313,496</u>	<u>39,128</u>	<u>-</u>	<u>352,624</u>
Net capital assets being depreciated	<u>\$ 374,530</u>			<u>\$ 335,402</u>

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

Downtown Development Authority	<u>\$ 39,128</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2014:

	<u>Balance</u> October 1, 2013	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> September 30, 2014	<u>Current</u> <u>Portion</u>
Governmental Activities					
Loans payable	\$ 1,156,877	\$ -	\$ 82,990	\$ 1,073,887	\$ 84,523
Compensated absences	530,855	359,394	351,966	538,283	-
Net OPEB obligation	<u>3,958,726</u>	<u>1,001,983</u>	<u>1,032,757</u>	<u>3,927,952</u>	<u>-</u>
	5,646,458	1,361,377	1,467,713	5,540,122	84,523
Business-Type Activities					
Revenue bonds	13,526,663	3,943,890	1,456,887	16,013,666	1,705,775
Loans payable	16,652	-	16,652	-	-
Compensated absences	338,000	228,830	286,830	280,000	-
Net OPEB obligation	<u>450,000</u>	<u>467,200</u>	<u>467,200</u>	<u>450,000</u>	<u>-</u>
	<u>14,331,315</u>	<u>4,639,920</u>	<u>2,227,569</u>	<u>16,743,666</u>	<u>1,705,775</u>
Total Primary Government Long-Term Debt	<u>\$ 19,977,773</u>	<u>\$ 6,001,297</u>	<u>\$ 3,695,282</u>	<u>\$ 22,283,788</u>	<u>\$ 1,790,298</u>

Long-term debt payables at September 30, 2014, 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% \$ 809,053

Note payable to Citizens Bank in the amount of \$398,106, monthly payment of \$3,065 including interest at 4.50%, final payment due July 1, 2023, secured by Fire Truck with a net book value of \$227,805 264,834

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Compensated absence	538,283
Net OPEB obligation	<u>3,927,952</u>
Total Governmental Activities	
Long-Term Liability	<u>\$ 5,540,122</u>
Business-Type Activities	
\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 2,815,947
\$5,725,000 2005 Electric revenue refunding bonds, payable in semi-annual installments ranging from \$430,000 to \$640,000, plus interest at 3.25% to 5.0%, final payment due May, 2017	1,835,000
\$1,086,070 2007 State/Drinking Water Revolving Fund loan payable annually, beginning October 1, 2011 and ending October 1, 2027, ranging from \$45,000 to \$66,070, including interest paid semi-annually at 2.125%	741,070
\$5,745,000 1996 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$240,000 to \$355,000, plus interest at 2.25%, final payment due September 30, 2017	1,035,000
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2013 and ending April 1, 2028, ranging from \$115,000 to \$145,000, including interest paid semi-annually at 1.625%	1,925,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$345,000 plus interest at 2.50%, final payment due October 1, 2029	3,717,172
\$3,800,000 2013 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$155,000 to \$230,000 plus interest at 2.00%, final payment due October 1, 2034	3,800,000
\$1,170,000 2013 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$45,000 to \$75,000 plus interest at 2.50%, final payment due April 1, 2034, currently in the draw down stage	143,890

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Compensated Absences	280,000
Net OPEB Obligation	<u>450,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>16,743,666</u>
Total Primary Government Long-Term Debt	<u>\$ 22,283,788</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2014 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2015	\$ 84,523	\$ 49,162	\$ 133,685
2016	86,804	46,339	133,143
2017	89,140	43,172	132,312
2018	91,531	39,619	131,150
2019	93,981	35,651	129,632
2020-2024	472,694	107,100	579,794
2025-2026	<u>155,214</u>	<u>9,406</u>	<u>164,620</u>
Total	<u>\$ 1,073,887</u>	<u>\$ 330,449</u>	<u>\$ 1,404,336</u>

	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 1,705,775	\$ 490,115	\$ 2,195,890
2016	1,754,740	435,114	2,189,854
2017	1,827,514	377,302	2,204,816
2018	792,508	316,163	1,108,671
2019	811,392	269,624	1,081,016
2020-2024	4,327,944	980,785	5,308,729
2025-2029	3,693,793	336,122	4,029,915
2030-2034	<u>1,100,000</u>	<u>67,000</u>	<u>1,167,000</u>
Total	<u>\$ 16,013,666</u>	<u>\$ 3,272,225</u>	<u>\$ 19,285,891</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2014:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Current Portion</u>
Loan Payable	\$ 159,488	\$ -	\$ 10,133	\$ 149,355	\$ 10,548

Long-term debt payable at September 30, 2014, consisted of the following individual issue:

Note payable to Farmers State Bank in the amount of \$180,000, monthly payment of \$1,275 including interest at 3.29%, final payment due August 1, 2026, unsecured	<u>\$ 149,355</u>
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Prepayment Penalty - the loan agreement contains the following prepayment penalty clause: prepayment penalty of 5% on the current balance if payoff is within the first year; second year will require a 4% penalty; third year will require a 3% penalty; fourth year will require a 2% penalty; fifth year will require a 1% penalty on current balance at time of payoff.

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2014 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 10,548	\$ 4,748	\$ 15,296
2016	10,900	4,396	15,296
2017	11,264	4,032	15,296
2018	11,642	3,654	15,296
2019	12,041	3,255	15,296
2020-2024	65,030	11,450	76,480
2025-2026	<u>27,930</u>	<u>1,391</u>	<u>29,321</u>
Total	<u>\$ 149,355</u>	<u>\$ 32,926</u>	<u>\$ 182,281</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2014:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Current Portion
Loan Payable	\$ 340,760	\$ -	\$ 33,335	\$ 307,425	\$ 28,724

Long-term debt payable at September 30, 2014, consisted of the following individual issue:

Note payable to Michigan Department of Environmental Quality in the amount of \$340,760, annual payment of \$33,335 including interest at 1.50%, first payment due June 26, 2014, final payment due June 26, 2024	<u>\$ 307,425</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2014 including both principal and interest, are as follows:

	Principal	Interest	Total
2015	\$ 28,724	\$ 4,611	\$ 33,335
2016	29,155	4,180	33,335
2017	29,592	3,743	33,335
2018	30,036	3,299	33,335
2019	30,487	2,848	33,335
2020-2024	<u>159,431</u>	<u>7,244</u>	<u>166,675</u>
Total	<u>\$ 307,425</u>	<u>\$ 25,925</u>	<u>\$ 333,350</u>

Local Development Finance Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2014:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Current Portion
Loan Payable	\$ 101,104	\$ -	\$ 16,668	\$ 84,436	\$ 22,224

Long-term debt payable at September 30, 2014, consisted of the following individual issue:

Note payable to City of Sturgis Electric Fund, no specific repayment terms	<u>\$ 84,436</u>
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**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2014:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2014</u>	<u>Current Portion</u>
Revenue					
Bonds	\$ 9,585,000	\$ 9,445,000	\$ 9,585,000	\$ 9,445,000	\$ 290,000

Long-term debt payable at September 30, 2014, consisted of the following individual issues:

Sturgis Building Authority Series 2014 Refunding Bonds, payable annually beginning October 1, 2015 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>\$ 9,445,000</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2014 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 290,000	\$ 333,812	\$ 623,812
2016	300,000	328,013	628,013
2017	325,000	322,012	647,012
2018	330,000	315,513	645,513
2019	340,000	308,912	648,912
2020-2024	1,950,000	1,399,863	3,349,863
2025-2029	2,555,000	999,612	3,554,612
2030-2034	<u>3,355,000</u>	<u>421,875</u>	<u>3,776,875</u>
Total	<u>\$ 9,445,000</u>	<u>\$ 4,429,612</u>	<u>\$ 13,874,612</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8 - **ADVANCES DUE TO OTHER FUNDS**

At September 30, 2014, the Water Fund reflected advances due to the following fund:

Electric Fund

Payable in semi-annual installments of \$20,788
including interest at 1.944% final payment
due July 28, 2015

\$ 38,896

NOTE 9 - **NOTES RECEIVABLE**

At September 30, 2014, the Economic Development Fund reflected the following note receivable:

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

\$ 26,473

At September 30, 2014, the Electric Fund reflected the following note receivable:

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

\$ 242,724

NOTE 10 - **LEASE RECEIVABLE**

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2014, 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

\$ 9,445,000

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 11 - RISK MANAGEMENT

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

During the year ended September 30, 2014, a total of \$69,069 was incurred in workers' compensation claims and related administrative costs.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2014, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	69,069
Claim payments	<u>(69,069)</u>
Claims liability September 30	<u>\$ 20,000</u>

For all eligible City employees, the City purchases commercial health care insurance. Stop-loss insurance coverage limits claim expense to \$60,000 per contract annually. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for employee medical benefits which totaled \$934,370 in 2014 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2014, was as follows:

Claims liability October 1	\$ 315,000
Current year claims and changes in estimates	934,370
Claim payments	<u>(934,370)</u>
Claims liability September 30	<u>\$ 315,000</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 12 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457, that is administered by ICMA Retirement Corporation. The plan, available to all city employees, permits them to defer a portion of their payroll until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Participants may contribute any amount allowed by the plan. The City will match the employee contribution at different percentages based on the employee group. In fiscal year 2014, the City contributed \$126,100 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all City unionized employees who normally work 1,950 hours or more a year, and all other full time City employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At September 30, 2014, the date of the most recent actuarial valuation, membership consisted of 100 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 85 current active employees. The plan does not issue a separate financial report.

Summary of Significant Accounting Policies

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

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

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

Contributions

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

Annual Pension Cost

For the year ended September 30, 2014, the City's annual pension cost of \$605,570 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.0 to 14.0 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.0%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The assets as of the valuation date exceed the accrued liabilities for all divisions.

Trend Information (under GASB Statement 27)

<u>Year Ended September 30,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 640,986	100%	-
2013	632,146	100%	-
2014	605,570	100%	-

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

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

DEFERRED RETIREMENT

Electrical (hired prior to March 1, 2008), Non-Union (hired prior to January 1, 2009): 5 years of service.	Computed as a regular retirement but based upon service and final average compensation at termination date. Benefit begins at normal retirement age.
Electric (hired on or after March 1, 2008) and Non-Union (hired on or after January 1, 2009): 8 years of service.	
Fire: 8 years of service, 5 years of service if retiring at age 60	
Other: 10 years of service.	

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

NON-DUTY DEATH BEFORE RETIREMENT

10 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.
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DUTY DEATH BEFORE RETIREMENT

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

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

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

General	1.80% of gross pension wages.
Electric (hired after 3/1/2008)	4.55% of gross pension wages.
Police	3.01% of gross pension wages.
Fire	4.30% of gross pension wages.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

CAP ON EMPLOYER CONTRIBUTIONS

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.

MEMBER FAC FACTOR BUY-UP CONTRIBUTIONS

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 normal pension benefits, the City will pay as a cost of living adjustment \$500 per year for 15 years, on a cumulative basis, to the first 2 employees who irrevocably notify the City and retire in each of the contract years commencing 10/1/2003, 2004, and 2005.
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

The following is three-year trend information for the City of Sturgis Employees' Retirement System: (under GASB Statement 27)

	Actuarial Valuation		
	<u>September 30,</u> <u>2013*</u>	<u>December 31,</u> <u>2012</u>	<u>2011</u>
Annual Pension Cost (APC)	\$ 451,579	\$ 718,324	\$ 709,230
Percentage of APC contributed	107%	89%	99%
Actuarial value of assets	29,185,546	27,991,089	26,883,866
Actuarial accrued liability (entry age)	28,527,620	28,294,833	27,210,414
(Under) Overfunded actuarial accrued liability	659,926	(303,744)	(326,548)
Funded ratio	102.3%	98.9%	98.8%
Covered payroll	5,001,805	4,873,009	4,872,540
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	13.2%	(6.2)%	(6.7)%

* Reflects 9 months experience.

GASB required supplementary information is present after the Notes to the Financial Statements. The following information relates to the GASB disclosure: (under GASB Statement 27)

Actuarial cost method - individual entry age normal cost
Amortization method - level percent of payroll, open

Amortization period - 15 years
Asset valuation method - market value with 5 year smoothing

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

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

* includes pay inflation at 4.0%

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

Pension Plan Disclosures under GASB Statement 67

	2014
Actuarial Valuation Date	September 30, 2014
Pension Plan's fiscal Year Ending Date (Measurement Date & Reporting Date)	September 30, 2014

Membership

Number of	
-Retirees and Beneficiaries	100
-Inactive, Nonretired Members	26
-Active Members	85
-Total	211
Covered Payroll	\$ 5,090,884

Net Pension Liability

Total Pension Liability	\$ 30,184,355
Plan Fiduciary Net Position	32,921,716
Net pension Liability (Asset)	\$ (2,737,361)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	109.07%
Net Pension Liability as a Percentage of Covered Payroll	(53.77)%

Development of the Single Discount Rate

Single Discount Rate	7.00%
Long-Term Expected Rate of Return	7.00%
Long-Term Municipal Bond Rate*	4.11%
Last year ending September 30 in the 2015 to 2114 projection period for which projected benefit payments are fully funded	2114

*Source: "State & local bonds" rate from Federal Reserve statistical release (H.15) as of September 26, 2014. The statistical release describes this rate as "Bond Buyer Index, general obligation, 20 years to maturity, mixed quality." In describing this index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

MEASUREMENT OF THE NET PENSION LIABILITY

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

A Single Discount Rate of 7.00% 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 7.00%. 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. Therefore, 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.

Below is a table providing the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the plan's net pension liability, if it were calculated using a Single Discount Rate that is one percent lower or one percent higher than the Single Discount Rate:

**SENSITIVITY OF NET PENSION LIABILITY
TO THE SINGLE DISCOUNT RATE ASSUMPTION**

1% Decrease <u>6.00%</u>	Current Single Discount Rate Assumption <u>7.00%</u>	1% Increase <u>8.00%</u>
\$ 946,887	\$ (2,737,361)	\$ (5,831,311)

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Description

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$3,927,952 and \$450,000 in governmental and business-type activities, respectively.

The City provides certain health care benefits for retirees, as per the requirements of union contracts and the authority of the City Commission. Substantially all of the City's full-time employees may become eligible for these benefits if they retire from the City and receive a pension. The City covers the majority of the cost by purchasing health care insurance. Currently, 96 retirees are eligible for health care benefits of which 69 are enrolled.

Funding Policy

The Plan is financed on a pay-as-you-go basis. Post-employment health care costs are accounted for in the Employee Benefits Fund. Contribution levels are determined annually by the City Commission during the annual budget process after considering the expected pay-as-you-go cash outlay for the benefit and available resources. For fiscal year 2014 the City contributed \$1,284,046 to the Plan of which \$548,546 was used to pay benefits and \$735,500 was held in a trust fund. Transfers to the Employee Benefits Fund in excess of the actual pay-as-you-go costs are held in trust, so they do reduce the City's net-OPEB obligation.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,469,183
Interest on net OPEB obligation	-
Annual OPEB cost	<u>1,469,183</u>
Increase in assets held in trust fund	(215,911)
Contributions made	<u>(1,284,046)</u>
Increase (decrease) in net OPEB obligation	(30,774)
Net OPEB obligation - beginning of year	<u>4,408,726</u>
Net OPEB obligation - end of year	<u>\$ 4,377,952</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 through 2014 were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation-</u> <u>End of Year</u>
9/30/08	\$ 1,410,567	39.6%	\$ 851,823
9/30/09	1,474,072	35.1%	1,808,353
9/30/10	2,048,963	27.5%	3,293,917
9/30/11	1,999,632	51.9%	4,254,939
9/30/12	1,474,035	84.4%	4,371,351
9/30/13	1,452,152	84.5%	4,408,726
9/30/14	1,469,183	87.4%	4,377,952

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

Funding Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the Plan was partially funded. The actuarial accrued liability for benefits equaled \$20,532,058, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,168,841. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$5,018,122, and the ratio of the UAAL to the covered payroll equaled 362%.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Funding Status and Funding Progress - Continued

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

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

Actuarial Methods and Assumptions

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

In the actuarial valuation dated December 31, 2013, the entry age normal actuarial cost method was used. Because the City funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 7.0% discount rate, which approximates the expected rate of return on non-pension investments held by the City. Actuarial assumptions also included annual health care and prescription drug cost trend rates of 9% and 9%, respectively, initially, reduced by decrements to an ultimate rate of 4% for both health care and prescription drug costs after five and ten years, respectively. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 15 - CONTINGENT LIABILITIES

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

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

NOTE 16 - PURCHASED POWER AGREEMENT

The City has entered into an agreement as of May 24, 2006, with Indiana Michigan Power Company (American Electric Power) to purchase electric service on a cost-based formula rate. The contract period runs from July 1, 2006 through May 31, 2026 and includes various cancellation clauses for either party based on advance notification dates or specific circumstances arising. The City receives a monthly invoice which includes a demand charge, energy charge and a fuel charge. The fuel charge is adjusted monthly from an estimated fuel rate factor to an actual. The contract also includes a formula rate true-up clause which requires a calendar year computation based on actual generation demand and generation energy charges. For the fiscal year ended September 30, 2014, the City incurred purchased power cost under this agreement of \$14,756,332 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$312,000 for future true-up cost charges.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 17 - CONSTRUCTION COMMITMENTS

Sanitary Sewer Fund

On December 12, 2013, the City issued Sanitary Sewer System Improvement Revenue Bond in the amount of \$1,170,000 with the Michigan Finance Authority. As of September 30, 2014, the City had received \$143,890 from this bond issue. On September 17, 2013, the City issued Sanitary Sewer System Improvement Revenue Bond in the amount of \$3,800,000 with the Michigan Finance Authority. As of September 30, 2014, the City had received \$3,800,000 from this bond issue. As of September 30, 2014, the City had incurred project costs totaling \$4,411,426 reflected as construction in process. This project is expected to be completed during fiscal year ending September 30, 2015 with the available bond proceeds.

In February, 2015, the City was awarded a Green Project principal forgiveness grant in the amount of \$1,334,645 which will reduce the loan balance.

NOTE 18 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

During the year ended September 30, 2014, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

None Were Material

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 19 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority and the Local Development Finance Authority component units had deficits in net position at September 30, 2014, of \$307,425 and \$82,325, respectively. For the BDA and the LDFA, these deficits existed as a result of presenting the financial statements for these component units on the full accrual basis in accordance with GAAP. On a modified accrual fund basis the BDA and the LDFA did not present deficit fund balances. The City plans to eliminate the net position deficits with future tax increment financing collections.

NOTE 20 - FEDERAL REVENUES

The following is a listing of the federal revenues as reported on the Fund Financial Statements of the City of Sturgis for the year ended September 30, 2014.

Community Development Block Grant	
General Fund – federal revenue	\$ 124,567
Byrne JAG Program	
General Fund - federal revenue	<u>35,000</u>
	159,567
Administered by Michigan Department of Transportation - including Single Audit requirements	
Electric Fund – street projects – federal revenue	110,163
Airport Fund – Runway Rehab – federal revenue	* 771,722
Municipal Street Fund - federal revenue	<u>* 360,319</u>
	<u>1,242,204</u>
Total federal sources	<u>\$1,401,771</u>

* - only reported on the Government-wide Financial Statements.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 21 - NEW ACCOUNTING STANDARDS

For the year end September 30, 2014 the City implemented the following new pronouncements:

GASB Statement 67 – Financial Reporting for Pension Plans.

SUMMARY:

This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer(s) to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplemental information.

GASB Statement 68 – Accounting and Financial Reporting for Pensions.

SUMMARY:

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability and the amount held in the pension trust fund.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 21 - NEW ACCOUNTING STANDARDS - (Continued)

As a result of implementing GASB Statement No 68 effective October 1, 2013, the Net Position – Beginning of year has been restated to report the net pension liability (asset) as of September 30, 2013 as follows:

Government-wide Financial Statements

	Governmental Activities	Business-type Activities
Net Position – September 30, 2013 – As previously reported	\$ 11,585,344	\$ 53,596,855
Reporting Net Pension asset under GASB Statement No 68	1,667,907	656,300
Net Position – September 30, 2014 – As restated	\$ 13,253,251	\$ 54,253,155

Fund Financial Statements

Proprietary Funds

	Electric Fund	Sanitary Sewer Fund	Water Fund
Net Position – September 30, 2013 – As previously reported	\$ 38,345,103	\$ 9,292,673	\$ 4,891,722
Reporting Net Pension asset under GASB Statement No 68	447,900	151,800	56,600
Net Position – September 30, 2014 – As restated	\$ 38,793,003	\$ 9,444,473	\$ 4,948,322

GASB Statement 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

SUMMARY:

This standard is an amendment to GASB 68, and seeks to clarify implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government’s fiscal year. The City of Sturgis changed the pension plan to a September fiscal year end effective September 30, 2013. Therefore, the City’s fiscal year end and the pension plan measurement date, are the same.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,663,500	\$ 2,644,500	\$ 2,648,608	\$ 4,108
Licenses and permits	65,500	71,500	75,767	4,267
Federal grants	85,000	205,000	159,567	(45,433)
State grants	9,200	9,425	4,671	(4,754)
State shared revenue	958,230	961,960	960,612	(1,348)
Charges for services	124,000	121,000	124,089	3,089
Fines and forfeits	33,500	33,500	28,909	(4,591)
Investment income	340,000	325,000	319,192	(5,808)
Payments in lieu of taxes	2,387,100	2,387,100	2,387,100	-
Administrative reimbursement	925,920	925,620	925,624	4
Other	<u>142,150</u>	<u>142,495</u>	<u>203,054</u>	<u>60,559</u>
Total revenue	7,734,100	7,827,100	7,837,193	10,093
EXPENDITURES				
Legislative	41,530	41,530	38,942	2,588
General government	1,357,535	1,352,565	1,191,077	161,488
Public safety	4,390,660	4,253,540	4,027,212	226,328
Public works	416,470	410,470	344,739	65,731
Health and welfare	66,000	66,000	58,984	7,016
Recreation and cultural	360,840	360,840	325,958	34,882
Community development	-	245,000	181,821	63,179
Debt services	<u>19,880</u>	<u>19,880</u>	<u>19,790</u>	<u>90</u>
Total expenditures	<u>6,652,915</u>	<u>6,749,825</u>	<u>6,188,523</u>	<u>561,302</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,081,185	1,077,275	1,648,670	571,395
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,079,730)</u>	<u>(1,089,730)</u>	<u>(1,089,730)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,079,730)</u>	<u>(1,089,730)</u>	<u>(1,089,730)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,455	(12,455)	558,940	571,395
FUND BALANCE – BEGINNING OF YEAR	<u>2,521,134</u>	<u>2,521,134</u>	<u>2,521,134</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 2,522,589</u>	<u>\$ 2,508,679</u>	<u>\$ 3,080,074</u>	<u>\$ 571,395</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ -	\$ -	\$ -	\$ -
State grants	75,000	140,000	132,694	(7,306)
State shared revenue	520,000	520,000	543,039	23,039
Investment income	100	100	34	(66)
Other	<u>3,000</u>	<u>3,000</u>	<u>1,123</u>	<u>(1,877)</u>
Total revenue	598,100	663,100	676,890	13,790
 EXPENDITURES				
Public works	<u>634,805</u>	<u>700,905</u>	<u>675,005</u>	<u>25,900</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(36,705)	(37,805)	1,885	39,690
 OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(36,705)	(37,805)	1,885	39,690
 FUND BALANCE – BEGINNING OF YEAR	<u>135,546</u>	<u>135,546</u>	<u>135,546</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 98,841</u>	<u>\$ 97,741</u>	<u>\$ 137,431</u>	<u>\$ 39,690</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 250,000	\$ 250,000	\$ 250,339	\$ 339
Special assessments	1,500	1,500	-	(1,500)
State grants	8,000	24,000	20,159	(3,841)
State shared revenue	190,000	190,000	198,986	8,986
Investment income	200	200	49	(151)
Other	<u>6,500</u>	<u>6,500</u>	<u>4,583</u>	<u>(1,917)</u>
Total revenue	456,200	472,200	474,116	1,916
 EXPENDITURES				
Public works	<u>487,860</u>	<u>503,860</u>	<u>506,822</u>	<u>(2,962)</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(31,660)	(31,660)	(32,706)	(1,046)
 FUND BALANCE – BEGINNING OF YEAR	<u>67,022</u>	<u>67,022</u>	<u>67,022</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 35,362</u>	<u>\$ 35,362</u>	<u>\$ 34,316</u>	<u>\$ (1,046)</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
State grants	\$ 374,140	\$ 374,140	\$ 255,341	\$ (118,799)
Investment income	<u>600</u>	<u>600</u>	<u>1,199</u>	<u>599</u>
Total revenue	374,740	374,740	256,540	(118,200)
 EXPENDITURES				
Public works	<u>1,309,825</u>	<u>2,268,160</u>	<u>870,599</u>	<u>1,397,561</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(935,085)	(1,893,420)	(614,059)	1,279,361
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	500,000	1,400,000	1,400,000	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>500,000</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(435,085)	(493,420)	785,941	1,279,361
 FUND BALANCE – BEGINNING OF YEAR	<u>536,323</u>	<u>536,323</u>	<u>536,323</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 101,238</u>	<u>\$ 42,903</u>	<u>\$ 1,322,264</u>	<u>\$ 1,279,361</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET/SIDEWALK IMPROVEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 734,000	\$ 734,000	\$ 748,554	\$ 14,554
State grants	-	50,000	50,763	763
Investment income	500	500	617	117
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	734,500	784,500	799,934	15,434
 EXPENDITURES				
Public works	<u>720,535</u>	<u>1,478,205</u>	<u>976,568</u>	<u>501,637</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	13,965	(693,705)	(176,634)	517,071
 FUND BALANCE – BEGINNING OF YEAR	<u>694,568</u>	<u>694,568</u>	<u>694,568</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 708,533</u>	<u>\$ 863</u>	<u>\$ 517,934</u>	<u>\$ 517,071</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Investment income	\$ -	\$ -	\$ 10,812	\$ 10,812
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,250,000	5,250,000	5,250,000	-
Operating transfers out	<u>(500,000)</u>	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>4,750,000</u>	<u>3,850,000</u>	<u>3,850,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	4,750,000	3,850,000	3,860,812	10,812
FUND BALANCE – BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 4,750,000</u>	<u>\$ 3,850,000</u>	<u>\$ 3,860,812</u>	<u>\$ 10,812</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION (GASB 27)
EMPLOYEE RETIREMENT SYSTEM

Schedule of Funding Progress

(Dollars represented in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/06#	\$ 56,089	\$ 53,868	\$ (2,221)	104.1%	19,202	-11.6%
12/31/07*	59,624	57,593	(2,031)	103.5%	19,355	-10.5%
12/31/08*	56,291	60,214	3,923	93.5%	19,474	20.1%
12/31/09*	24,817	24,882	65	99.7%	4,973	1.3%
12/31/10	25,937	25,550	(387)	101.5%	4,761	-8.1%
12/31/11*	26,884	27,210	327	98.8%	4,872	6.7%
12/31/12	27,991	28,295	304	98.9%	4,873	6.2%
9/30/13*	29,185	28,527	(658)	102.3%	5,002	-13.2%

* plan amended # certain assumptions revised

Schedule of Employer Contributions

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/06	\$ 1,929,451	102.1%
12/31/07	1,777,822	96.3%
12/31/08	1,504,203	106.2%
12/31/09	1,513,384	102.6%
12/31/10	570,347	107.1%
12/31/11	709,230	98.9%
12/31/12	718,324	89.0%
9/30/13*	451,579	106.8%

* reflects 9 months of experience

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION (GASB 67)
EMPLOYEE RETIREMENT SYSTEM**

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Fiscal year ending September 30,

	2014
Total pension liability	
Service cost	\$ 646,831
Interest on total pension liability	1,964,261
Benefit changes	(20,349)
Difference between expected and actual experience	646,323
Assumption changes	-
Benefit payments	(1,509,218)
Refunds	(6,314)
Pension plan administrative expense	(64,799)
Net change in total pension liability	1,656,735
 Total pension liability, beginning of year	 28,527,620
Total pension liability, end of year	\$ 30,184,355
 Plan fiduciary net position	
Employer contributions	\$ 605,570
Employee contributions	115,200
Pension plan net investment income	2,929,450
Benefit payments	(1,509,218)
Refunds	(6,314)
Pension plan administrative expense	(64,799)
Other	-
Net change in plan fiduciary net position	2,069,889
 Plan fiduciary net position, beginning of year	 30,851,827
Plan fiduciary net position, end of year	\$ 32,921,716
 Net pension liability (asset)	 \$ (2,737,361)
 Plan fiduciary net position as a percentage of total pension liability	 109.07%
 Covered employee payroll	 \$ 5,090,884
 Net pension liability as a percentage of covered employee payroll	 (53.77)%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION (GASB 67)
EMPLOYEE RETIREMENT SYSTEM

Schedule of Net Pension Liability (Asset)
(Dollars represented in thousands)

<u>FY Ending September 30,</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll</u>	<u>Net Pension Liability as a % of Covered Payroll</u>
2014	\$ 30,184	\$ 32,922	\$ (2,737)	109.07%	\$ 5,091	(53.77)%

Schedule of Investment Returns

<u>FY Ending September 30,</u>	<u>Annual Return*</u>	* - annual money-weighted rate of return, Net of investment expenses
2014	9.2%	

Schedule of City Contributions

<u>FY Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 574,553	\$ 605,570	\$ (31,017)	\$ 5,090,884	11.90%

Note: GASB 67 was implemented in fiscal year 2014. The above schedules are being built prospectively. Ultimately, 10 years of data will be presented.

Valuation Date:

Notes The Annual Required Contribution is based on the prior year's contribution rates for the first nine months and the current year's contribution rates for the last three months of the calendar year. Non-refundable cost sharing member contributions are included in the Annual Requires Contributions.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value with 5-Year Smoothing; 20% corridor
Inflation	Although not used in the calculation, the rate of price inflation is 3.0%
Salary Increases	4.0% to 14.0% including pay inflation
Investment Rate of Return	7.00%
Retirement Age	Age and experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation.
Mortality	RP2000 Table projected to 2020 with scale AA for both men and women.

Other Information:

Notes As of October 1, 2014, the employee contribution rate for electric is 4.55%

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFITS

Schedule of Funding Progress

(Dollars represented in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$ -	\$ 16,267	\$ 16,267	0%	\$ 5,107	318%
12/31/07	-	17,702	17,702	0%	4,986	355%
12/31/09	-	17,475	17,475	0%	4,973	351%
12/31/11	614,043	16,780	16,166	3.7%	4,873	332%
12/31/13	2,363,217	20,532	18,168	11.5%	5,018	362%

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

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

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
9/30/08	\$ 1,410,567	39.6%
9/30/09	1,474,042	35.1%
9/30/10	2,048,963	27.5%
9/30/11	1,999,632	51.9%
9/30/12	1,474,035	84.4%
9/30/13	1,452,152	84.5%
9/30/14	1,469,183	87.4%

OTHER SUPPLEMENTAL INFORMATION

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2014

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 249,708	\$ 171,483	\$ 421,191
Investments	-	712,306	712,306
Receivables			
Accounts	64,698	-	64,698
Interest	-	-	-
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepaid items	30,700	-	30,700
Inventory	<u>50,427</u>	<u>-</u>	<u>50,427</u>
 Total assets	 <u>\$ 395,533</u>	 <u>\$ 883,789</u>	 <u>\$ 1,279,322</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 54,302	\$ -	\$ 54,302
Due to other funds	-	-	-
Accrued expenses	19,691	-	19,691
Unearned revenue	<u>54,814</u>	<u>-</u>	<u>54,814</u>
 Total liabilities	 128,807	 -	 128,807
 Fund Balance			
Nonspendable	81,127	-	81,127
Restricted	-	883,789	883,789
Committed	<u>185,599</u>	<u>-</u>	<u>185,599</u>
 Total fund balance	 <u>266,726</u>	 <u>883,789</u>	 <u>1,150,515</u>
 Total liabilities and fund balance	 <u>\$ 395,533</u>	 <u>\$ 883,789</u>	 <u>\$ 1,279,322</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2014

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major, Governmental Funds</u>
Revenue			
License and permits	\$ 52,846	\$ -	\$ 52,846
State grants	-	-	-
Charges for services	1,209,570	3,832	1,213,402
Fines and forfeits	-	-	-
Investment income (loss)	-	2,103	2,103
Contributions	265,105	-	265,105
Other	<u>48,480</u>	<u>-</u>	<u>48,480</u>
 Total revenue	 1,576,001	 5,935	 1,581,936
 Expenditures			
General government	324,453	-	324,453
Public safety	115,057	-	115,057
Public works	303,947	-	303,947
Recreation and cultural	1,299,045	-	1,299,045
Capital outlay	268,164	-	268,164
Debt service	<u>77,522</u>	<u>-</u>	<u>77,522</u>
 Total expenditures	 <u>2,388,188</u>	 <u>-</u>	 <u>2,388,188</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	 (812,187)	 5,935	 (806,252)
 OTHER FINANCING SOURCES (USES)			
Operating transfers in	766,890	-	766,890
Operating transfers out	<u>-</u>	<u>(7,160)</u>	<u>(7,160)</u>
 Total other financing sources (uses)	 <u>766,890</u>	 <u>(7,160)</u>	 <u>759,730</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	 (45,297)	 (1,225)	 (46,522)
 FUND BALANCE – BEGINNING OF YEAR	 <u>312,023</u>	 <u>885,014</u>	 <u>1,197,037</u>
 FUND BALANCE – END OF YEAR	 <u>\$ 266,726</u>	 <u>\$ 883,789</u>	 <u>\$ 1,150,515</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2014

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 39,317	\$ 52,118	\$ 38,485	\$ 234
Accounts receivables	-	-	432	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 39,317</u>	<u>\$ 52,118</u>	<u>\$ 38,917</u>	<u>\$ 234</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 558	\$ 7,019	\$ 7,499	\$ -
Due to other funds	-	-	-	-
Accrued expenses	1,309	-	4,572	234
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	1,867	7,019	12,071	234
Fund Balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	<u>37,450</u>	<u>45,099</u>	<u>26,846</u>	<u>-</u>
Total fund balance	<u>37,450</u>	<u>45,099</u>	<u>26,846</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 39,317</u>	<u>\$ 52,118</u>	<u>\$ 38,917</u>	<u>\$ 234</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ 28,751	\$ 53,052	\$ 35,354	\$ 5,531	\$ (3,134)	\$ 249,708
-	18,237	6,500	22,878	16,651	64,698
-	-	-	-	-	-
-	-	-	-	-	-
-	-	30,700	-	-	30,700
-	20,176	-	-	30,251	50,427
<u>\$ 28,751</u>	<u>\$ 91,465</u>	<u>\$ 72,554</u>	<u>\$ 28,409</u>	<u>\$ 43,768</u>	<u>\$ 395,533</u>
\$ 2,572	\$ 10,325	\$ 10,343	\$ 9,122	\$ 6,864	\$ 54,302
-	-	-	-	-	-
1,682	7,339	-	4,170	385	19,691
-	37,227	3,226	14,361	-	54,814
4,254	54,891	13,569	27,653	7,249	128,807
-	20,176	30,700	-	30,251	81,127
-	-	-	-	-	-
<u>24,497</u>	<u>16,398</u>	<u>28,285</u>	<u>756</u>	<u>6,268</u>	<u>185,599</u>
<u>24,497</u>	<u>36,574</u>	<u>58,985</u>	<u>756</u>	<u>36,519</u>	<u>266,726</u>
<u>\$ 28,751</u>	<u>\$ 91,465</u>	<u>\$ 72,554</u>	<u>\$ 28,409</u>	<u>\$ 43,768</u>	<u>\$ 395,533</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2014

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
Revenue				
License and permits	\$ 52,846	\$ -	\$ -	\$ -
State grants	-	-	-	-
Charges for services	-	65,707	68,968	-
Fines and forfeits	-	-	-	-
Contributions	-	-	-	-
Other	<u>45</u>	<u>4,051</u>	<u>2,816</u>	<u>-</u>
Total revenue	52,891	69,758	71,784	-
Expenditures				
General government	-	97,854	226,599	-
Public safety	89,925	-	-	25,132
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>89,925</u>	<u>97,854</u>	<u>226,599</u>	<u>25,132</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(37,034)	(28,096)	(154,815)	(25,132)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	60,000	50,000	157,160	23,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>60,000</u>	<u>50,000</u>	<u>157,160</u>	<u>23,000</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	22,966	21,904	2,345	(2,132)
FUND BALANCE – BEGINNING OF YEAR	<u>14,484</u>	<u>23,195</u>	<u>24,501</u>	<u>2,132</u>
FUND BALANCE – END OF YEAR	<u>\$ 37,450</u>	<u>\$ 45,099</u>	<u>\$ 26,846</u>	<u>\$ -</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,846
-	-	-	-	-	-
60,542	369,386	67,018	374,879	203,070	1,209,570
-	-	-	-	-	-
11,465	87,170	89,705	76,765	-	265,105
<u>39</u>	<u>14,636</u>	<u>200</u>	<u>16,566</u>	<u>10,127</u>	<u>48,480</u>
72,046	471,192	156,923	468,210	213,197	1,576,001
-	-	-	-	-	324,453
-	-	-	-	-	115,057
-	-	-	-	303,947	303,947
162,602	593,640	133,119	409,684	-	1,299,045
-	125,020	-	97,828	45,316	268,164
<u>-</u>	<u>63,186</u>	<u>-</u>	<u>14,336</u>	<u>-</u>	<u>77,522</u>
<u>162,602</u>	<u>781,846</u>	<u>133,119</u>	<u>521,848</u>	<u>349,263</u>	<u>2,388,188</u>
(90,556)	(310,654)	23,804	(53,638)	(136,066)	(812,187)
100,000	271,730	-	25,000	80,000	766,890
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>100,000</u>	<u>271,730</u>	<u>-</u>	<u>25,000</u>	<u>80,000</u>	<u>766,890</u>
9,444	(38,924)	23,804	(28,638)	(56,066)	(45,297)
<u>15,053</u>	<u>75,498</u>	<u>35,181</u>	<u>29,394</u>	<u>92,585</u>	<u>312,023</u>
<u>\$ 24,497</u>	<u>\$ 36,574</u>	<u>\$ 58,985</u>	<u>\$ 756</u>	<u>\$ 36,519</u>	<u>\$ 266,726</u>

**CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 188,216	\$ 106,061	\$ 470,181	\$ 764,458
Investments	1,000,000	-	-	1,000,000
Receivables	11,785	-	8,699	20,484
Due from other funds	-	-	-	-
Prepaid items	-	98,094	-	98,094
Inventory	<u>3,845</u>	<u>-</u>	<u>-</u>	<u>3,845</u>
Total current assets	1,203,846	204,155	478,880	1,886,881
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,195,336</u>	<u>-</u>	<u>-</u>	<u>1,195,336</u>
Total assets	2,399,182	204,155	478,880	3,082,217
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	25,378	-	-	25,378
Accounts payable	6,874	20,000	380,293	407,167
Accrued expenses	1,962	-	-	1,962
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	34,214	20,000	380,293	434,507
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>239,456</u>	<u>-</u>	<u>-</u>	<u>239,456</u>
Total liabilities	273,670	20,000	380,293	673,963
NET POSITION				
Invested in capital assets, net of related debt	930,502	-	-	930,502
Unrestricted	<u>1,195,010</u>	<u>184,155</u>	<u>98,587</u>	<u>1,477,752</u>
Total net position	<u>\$ 2,125,512</u>	<u>\$ 184,155</u>	<u>\$ 98,587</u>	<u>\$ 2,408,254</u>

**CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
OPERATING REVENUE				
Charges to other funds	\$ 906,661	\$ 129,575	\$ 1,614,977	\$ 2,651,213
Other revenues	<u>13,057</u>	<u>18</u>	<u>346,771</u>	<u>359,846</u>
Total operating revenue	919,718	129,593	1,961,748	3,011,059
OPERATING EXPENSES				
Operating and administrative	537,745	4,151	65,057	606,953
Insurance premiums and claims	-	186,594	2,170,409	2,357,003
Depreciation	<u>294,655</u>	<u>-</u>	<u>-</u>	<u>294,655</u>
Total operating expenses	<u>832,400</u>	<u>190,745</u>	<u>2,235,466</u>	<u>3,258,611</u>
OPERATING INCOME (LOSS)	87,318	(61,152)	(273,718)	(247,552)
NONOPERATING REVENUE (EXPENSE)				
Investment income	15,274	224	711	16,209
Gain (loss) on sale of fixed assets	35,871	-	-	35,871
Interest expense	<u>(11,900)</u>	<u>-</u>	<u>-</u>	<u>(11,900)</u>
Total nonoperating revenue (expense)	<u>39,245</u>	<u>224</u>	<u>711</u>	<u>40,180</u>
CHANGE IN NET POSITION	126,563	(60,928)	(273,007)	(207,372)
NET POSITION – BEGINNING OF YEAR	<u>1,998,949</u>	<u>245,083</u>	<u>371,594</u>	<u>2,615,626</u>
NET POSITION – END OF YEAR	<u>\$ 2,125,512</u>	<u>\$ 184,155</u>	<u>\$ 98,587</u>	<u>\$ 2,408,254</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2014

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Cash flows from operating activities				
Receipts from customers	\$ 5,801	\$ 458	\$ 340,501	\$ 346,760
Receipts for internal services provided	906,661	129,575	1,614,977	2,651,213
Payments to suppliers	(485,978)	(200,971)	(2,037,296)	(2,724,245)
Payments to employees	<u>(90,601)</u>	<u>-</u>	<u>-</u>	<u>(90,601)</u>
Net cash provided by (used for) operating activities	335,883	(70,938)	(81,818)	183,127
Cash flows from capital and related financing activities				
Acquisition of capital assets	(329,699)	-	-	(329,699)
Proceeds from sale of capital assets	35,871	-	-	35,871
Proceeds from long-term debt	-	-	-	-
Principal paid on debt	(24,877)	-	-	(24,877)
Interest paid on debt	<u>(11,900)</u>	<u>-</u>	<u>-</u>	<u>(11,900)</u>
Net cash provided by (used for) capital and related financing activities	(330,605)	-	-	(330,605)
Cash flows from investing activities				
Interest on investments	<u>15,274</u>	<u>224</u>	<u>711</u>	<u>16,209</u>
Net increase (decrease) in cash	20,522	(70,714)	(81,107)	(131,269)
Cash – Beginning of Year	<u>167,664</u>	<u>176,775</u>	<u>551,288</u>	<u>895,727</u>
Cash – End of Year	<u>\$ 188,216</u>	<u>\$ 106,061</u>	<u>\$ 470,181</u>	<u>\$ 764,458</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2014

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 87,318	\$ (61,152)	\$ (273,718)	\$ (247,552)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	294,655	-	-	294,655
(Increase) decrease in				
Receivables	(7,256)	440	(6,270)	(13,086)
Due from other funds	-	-	-	-
Prepaid items	-	(10,226)	149,892	139,666
Inventory	184	-	-	184
Increase (decrease) in				
Accounts payable	(39,507)	-	48,278	8,771
Accrued expenses	489	-	-	489
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 335,883</u>	<u>\$ (70,938)</u>	<u>\$ (81,818)</u>	<u>\$ 183,127</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2014**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 91,663
Accounts receivable	509
Due from governmental units	6,868
Prepaid assets	<u>100</u>
Total assets	<u>\$ 99,140</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable	\$ 2,216
Customer deposits	1,150
Unearned revenue	<u>1,600</u>
Total liabilities	4,966
 Deferred inflows of resources	
Unavailable revenue	38,966
 Fund Balance	
Nonspendable	100
Restricted	<u>55,108</u>
Total fund balance	<u>55,208</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 99,140</u>

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

Total fund balance - governmental fund		\$ 55,208
Amounts reported for the governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Governmental capital assets	688,026	
Less accumulated depreciation	<u>(352,624)</u>	335,402
Certain liabilities are not due and payable in the current periods and therefore are not reported in the funds		
Note payable		<u>(149,355)</u>
Net position of governmental activities		<u>\$ 241,255</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGE IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 48,668
Charges for services	16,844
Interest	72
Rents	5,835
Other	5,201
Total revenues	76,620
EXPENDITURES	
Economic development	57,252
Debt service - principal	10,133
Debt service - interest	5,163
Total expenditures	72,548
EXCESS OF REVENUE OVER EXPENDITURES	4,072
FUND BALANCE – BEGINNING OF YEAR	51,136
FUND BALANCE – END OF YEAR	\$ 55,208

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

Net change in fund balance - governmental fund	\$ 4,072
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Amounts reported for governmental activities in the statement of activities are different because:

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

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

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

Principal payments on debt obligations	10,133
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Change in net position of governmental activities	\$ (24,923)
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2014**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ -
Due from other governmental units	-
Total assets	\$ -
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ -
Fund Balance	
Restricted	-
Total Liabilities and Fund Balance	\$ -

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

Total fund balance - governmental fund	\$ -
<p style="margin-left: 20px;">Amounts reported for the governmental activities in the statement of net position are different because:</p>	
<p style="margin-left: 20px;">Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>	
Note payable	307,425
Net position of governmental activities	\$ (307,425)

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>
REVENUE	
Interest	\$ -
Other	<u>33,335</u>
Total revenues	33,335
EXPENDITURES	
Debt service - principal	33,335
Debt service - interest	<u>-</u>
Total expenditures	<u>33,335</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-
FUND BALANCE – BEGINNING OF YEAR	<u>-</u>
FUND BALANCE – END OF YEAR	<u><u>\$ -</u></u>

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

Net change in fund balance - governmental fund	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>33,335</u>
Change in net position of governmental activities	<u><u>\$ 33,335</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2014**

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 40,104</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ -
Deferred inflows of resources	
Unavailable revenue	37,993
Fund Balance	
Restricted	<u>2,111</u>
Total Liabilities and Fund Balance	<u>\$ 40,104</u>

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

Total fund balance - governmental fund	\$ 2,111
Amounts reported for the governmental activities in the statement of net position are different because:	
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	<u>(84,436)</u>
Net position of governmental activities	<u>\$ (82,325)</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 18,485
Interest	<u>13</u>
Total revenues	18,498
EXPENDITURES	
Debt service-principal	<u>16,668</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,830
FUND BALANCE – BEGINNING OF YEAR	<u>281</u>
FUND BALANCE – END OF YEAR	<u>\$ 2,111</u>

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

Net change in fund balance - governmental fund	\$ 1,830
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>16,668</u>
Change in net position of governmental activities	<u>\$ 18,498</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2014**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,269</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	\$ -
Fund Balance	
Restricted	<u>1,269</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>1,269</u>

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

Total fund balance - governmental fund	\$ 1,269
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Amounts reported for the governmental activities in the statement of net position are different because:

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

Lease receivable	9,445,000
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Certain assets are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	<u>(9,445,000)</u>
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Net position of governmental activities	\$ <u>1,269</u>
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>
REVENUE	
Lease income	\$ 527,950
Other	75
Proceeds from Refunding Bond issue	9,445,000
Bond premium	309,034
Total Revenues	10,282,059
EXPENDITURES	
Debt service - principal	230,000
Debt service - interest	297,275
Disbursement to bond paying agent	9,567,687
Bond Discount	94,450
Bond issuance costs	91,378
Total Expenditures	10,280,790
EXCESS OF REVENUE OVER EXPENDITURES	1,269
FUND BALANCE – BEGINNING OF YEAR	-
FUND BALANCE – END OF YEAR	\$ 1,269

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

Net change in fund balance - governmental fund	1,269
Collection of lease receivable is a revenue in the governmental funds, but the collection reduces long-term receivables in the statement of net position	(230,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	230,000
Change in net position of governmental activities	\$ 1,269



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

To the City Commission
City of Sturgis, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Sturgis' basic financial statements and have issued our report thereon dated March 30, 2015.

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146

Internal Control Over Financial Reporting

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

Other Location:
123 N. Main Street
Three Rivers, MI 49093
Fax 269.278.8252

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Bruce S.A. Gosling, CPA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA
Dwight M. Blodgett, CPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sturgis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

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

Norman & Paulsen, P.C.

March 30, 2015

AUDIT-RELATED COMMUNICATIONS



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

We have audited the financial statements of the City of Sturgis, Michigan for the year ended September 30, 2014, and have issued our report thereon dated March 30, 2015. Professional standards require that we provide you with the following information related to our audit.

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

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146

As stated in our engagement letter dated September 20, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Other Location:

123 N. Main Street
Three Rivers, MI 49093
Fax 269.278.8252

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 20, 2014.

Bruce S.A. Gosling, CPA

Michael R. Wilson, CPA

Ricky L. Strawser, CPA

Dwight M. Blodgett, CPA

Qualitative Aspects of Accounting Practices

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

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

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

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

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

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

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

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

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

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

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

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

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

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 30, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

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

Sincerely,

Norman & Paulsen, P.C.

March 30, 2015