

CITY OF STURGIS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan (the "City"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Gabridge & Company

Gabridge & Company, PLC
Sturgis, Michigan
March 25, 2020

Management's Discussion and Analysis

City of Sturgis
Management's Discussion and Analysis
September 30, 2019

As management of the *City of Sturgis, Michigan* (the "City" or "government"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

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

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year September 30, 2019 by \$86,633,835 (net position). Of this, \$52,042,676 was the net investment in capital assets, \$3,438,522 was restricted, and the remaining was unrestricted with a balance of \$31,152,637.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$10,430,602, an increase of \$1,393,303 in comparison with the prior year. Approximately 26.6% of this amount, or \$2,774,247, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,774,247, or 29.5% of the general fund's annualized expenditures and transfers out.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Component Units

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other information

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$86,633,835 at the close of the most recent fiscal year. The following chart illustrates the composition of net position:

City of Sturgis' Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 15,748,170	\$ 13,308,924	\$ 20,933,606	\$ 19,383,564	\$ 36,681,776	\$ 32,692,488
Receivables	397,635	488,773	4,156,028	4,116,464	4,553,663	4,605,237
Inventory and Prepaid Items	305,558	358,602	1,542,854	1,384,832	1,848,412	1,743,434
Total Current Assets	16,451,363	14,156,299	26,632,488	24,884,860	43,083,851	39,041,159
<i>Noncurrent Assets</i>						
Restricted Assets	-	-	185,492	181,507	185,492	181,507
Net Pension Assets	-	111,679	-	74,453	-	186,132
Capital Assets, Net	18,946,040	19,599,759	42,774,688	43,209,317	61,720,728	62,809,076
Long-term Receivables	-	-	1,700,000	1,783,912	1,700,000	1,783,912
Total Assets	35,397,403	33,867,737	71,292,668	70,134,049	106,690,071	104,001,786
DEFERRED OUTFLOWS OF RESOURCES						
Pension	299,895	903,837	199,928	602,559	499,823	1,506,396
OPEB	204,521	48,280	64,585	15,247	269,106	63,527
Total Deferred Outflows of Resources	504,416	952,117	264,513	617,806	768,929	1,569,923
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	1,363,640	469,412	2,021,702	1,865,430	3,385,342	2,334,842
Accrued Expenses and Other Liabilities	232,232	463,646	728,544	699,268	960,776	1,162,914
Unearned Revenue	161,577	135,859	-	-	161,577	135,859
Current Portion of Long-term Debt	146,343	139,341	794,218	771,431	940,561	910,772
Total Current Liabilities	1,903,792	1,208,258	3,544,464	3,336,129	5,448,256	4,544,387
<i>Noncurrent Liabilities</i>						
Compensated Absences	618,840	593,160	231,000	231,000	849,840	824,160
Net OPEB Liability	1,313,014	2,016,150	414,635	636,679	1,727,649	2,652,829
Net Pension Liability	433,896	-	289,265	-	723,161	-
Long-term Debt	1,107,013	1,253,374	7,630,478	8,424,565	8,737,491	9,677,939
Total Liabilities	5,376,555	5,070,942	12,109,842	12,628,373	17,486,397	17,699,315
DEFERRED INFLOWS OF RESOURCES						
Pension	41,756	734,809	27,838	489,874	69,594	1,224,683
OPEB	749,942	433,939	236,824	137,035	986,766	570,974
Unavailable Revenue	2,282,408	2,216,719	-	-	2,282,408	2,216,719
Total Deferred Inflows of Resources	3,074,106	3,385,467	264,662	626,909	3,338,768	4,012,376
NET POSITION						
Net Investment in Capital Assets	17,692,684	18,207,044	34,349,992	34,013,321	52,042,676	52,220,365
<i>Restricted</i>	3,258,030	2,279,065	180,492	176,507	3,438,522	2,455,572
<i>Unrestricted</i>	6,500,444	5,877,336	24,652,193	23,306,745	31,152,637	29,184,081
Total Net Position	\$ 27,451,158	\$ 26,363,445	\$ 59,182,677	\$ 57,496,573	\$ 86,633,835	\$ 83,860,018

A large portion of the City's net position (\$52,042,676, or 59.6%) reflect its net investment in capital assets (e.g., land and land improvements, construction in process, buildings and improvements, water, and sewer systems, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net position restricted for highways and streets, capital projects, perpetual care, and debt service represents \$3,438,522, or 4.0%. The remaining balance of unrestricted net position was \$31,523,310, or 36.4%, as of September 30, 2019.

Cash and investments increased by \$3,989,288, largely as a result of an increase in net position of \$2,773,817. The City's net pension asset of \$186,132 changed into a net pension liability of \$723,161 as a result of a smaller amount of investment income on the plan's retirement assets compared to the prior year. Net OPEB liability decreased significantly as a result of better investment income on the plan's OPEB assets and a greater difference between expected and actual experience.

The following table presents a summary of the changes in net position for the years ended September 30, 2019 and September 30, 2018:

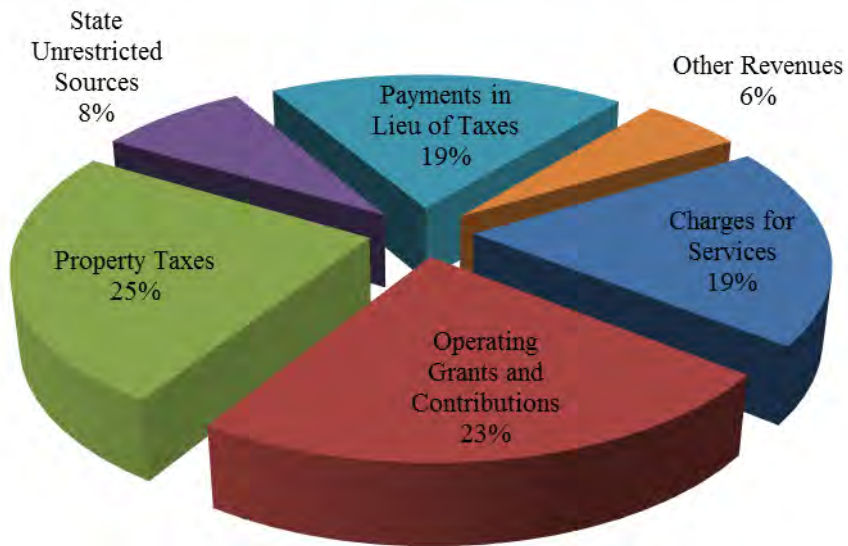
City of Sturgis' Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Charges for Services	\$ 2,614,102	\$ 2,546,646	\$ 31,298,360	\$ 32,328,663	\$ 33,912,462	\$ 34,875,309
Operating Grants and Contributions	3,166,864	2,335,058	-	4,000	3,166,864	2,339,058
Capital Grants and Contributions	75,876	252,980	-	-	75,876	252,980
Total Program Revenues	5,856,842	5,134,684	31,298,360	32,332,663	37,155,202	37,467,347
General Revenues						
Property Taxes	3,330,713	3,235,267	-	-	3,330,713	3,235,267
State Unrestricted Sources	1,098,890	1,057,449	-	-	1,098,890	1,057,449
Unrestricted Investment Earnings	352,651	261,737	690,569	42,646	1,043,220	304,383
Miscellaneous	308,706	432,321	474,932	936,134	783,638	1,368,455
Payments in Lieu of Taxes	2,631,917	2,601,817	-	-	2,631,917	2,601,817
Total General Revenues	7,722,877	7,588,591	1,165,501	978,780	8,888,378	8,567,371
Total Revenues	13,579,719	12,723,275	32,463,861	33,311,443	46,043,580	46,034,718
Expenses						
Legislative	41,255	41,862	-	-	41,255	41,862
General Government	1,771,034	692,973	-	-	1,771,034	692,973
Public Safety	4,743,712	4,509,351	-	-	4,743,712	4,509,351
Public Works	3,140,005	4,585,117	-	-	3,140,005	4,585,117
Recreation and Culture	2,341,035	2,234,808	-	-	2,341,035	2,234,808
Health and Welfare	1,000	1,500	-	-	1,000	1,500
Community and Economic Development	292,086	296,879	-	-	292,086	296,879
Interest on Long-term Debt	48,239	51,711	-	-	48,239	51,711
Electric, Sewer, and Water	-	-	30,891,397	31,865,728	30,891,397	31,865,728
Total Expenses	12,378,366	12,414,201	30,891,397	31,865,728	43,269,763	44,279,929
Change in Net Position before Transfers	1,201,353	309,074	1,572,464	1,445,715	2,773,817	1,754,789
Net Transfers	(113,640)	(110,000)	113,640	110,000	-	-
Change in Net Position	1,087,713	199,074	1,686,104	1,555,715	2,773,817	1,754,789
<i>Net Position at Beginning of Period</i>	<i>26,363,445</i>	<i>26,164,371</i>	<i>57,496,573</i>	<i>55,940,858</i>	<i>83,860,018</i>	<i>82,105,229</i>
Net Position at End of Period	\$ 27,451,158	\$ 26,363,445	\$ 59,182,677	\$ 57,496,573	\$ 86,633,835	\$ 83,860,018

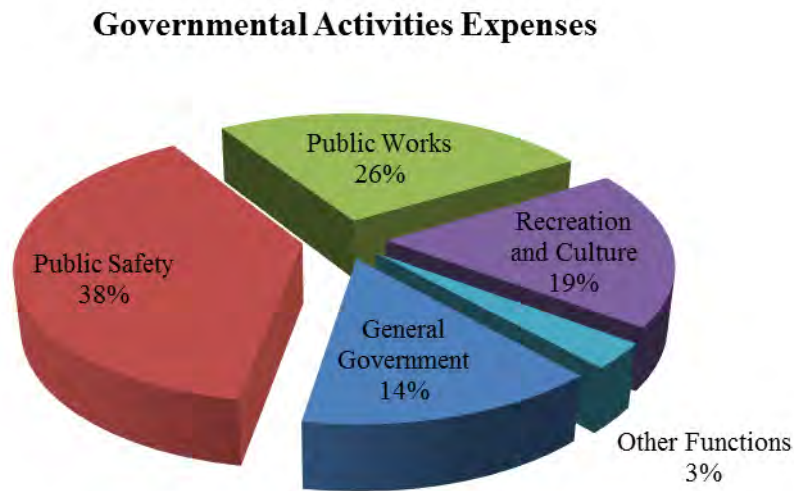
Governmental Activities. Governmental activities increased the City's net position by \$1,087,713 for the year ended September 30, 2019 compared to an increase of \$199,074 for the prior year. Total revenues increased by \$856,444 and total expenses decreased by \$35,835. Operating grants and contributions increased by \$831,806 due to the Local Community Stabilization Authority personal property tax reimbursement of approximately \$1,576,000 in the current year compared to approximately \$749,000 in the prior year. Changes within expenses are largely a result of the changes within the net pension liability, net OPEB liability, and their related deferred items.

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

Governmental Activities Revenues



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



Business-type Activities. Business-type activities increased the City’s net position by \$1,686,104 for the year ended September 30, 2019 compared to an increase of \$1,555,715 in the prior year.

Key components of this change are as follows:

- The electric fund had an increase in net position of \$1,104,969 which was mainly due to the regular operations of the fund.
- The sanitary sewer fund had an increase in net position of \$532,367 which was mainly due to the regular operations of the fund.
- The water fund had an increase in net position of \$48,768 which was mainly due to the regular operations of the fund.

Financial Analysis of the Government’s Funds

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

Governmental Funds

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

the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Commission.

At September 30, 2019, the City's governmental funds reported combined fund balances of \$10,430,062, an increase of \$1,393,303 in comparison with the prior year. Approximately 25.7% of this amount, or \$2,774,247, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable or restricted* to indicate that it is: 1) not in spendable form, (\$183,966, or 1.8%, for prepaid and inventory items and nonexpendable endowments), 2) restricted for particular purposes, \$3,113,808, or 29.9%, 3) assigned for specific purposes, \$35,270, or 0.3%, or 4) committed for specific purposes, \$4,323,311, or 41.4%.

General Fund - The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,774,247 while total fund balance decreased by \$163,603 to \$2,774,672. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 29.5% of total general fund expenditures and transfers out.

General Fund Budgetary Highlights

During the year the general fund budget increased by \$770,185 primarily allocated to specific projects. The primary changes were:

- \$600,000 was appropriated to transfer to the capital projects fund to increase resources for planned capital projects.
- \$85,185 was appropriated for additional capital projects.
- \$45,000 was appropriated for tax tribunal adjustments.
- \$30,000 was appropriated to transfer to the housing fund for blight improvement.
- \$10,000 was appropriated to the auditorium fund for operational requirements.

Actual departmental and other expenditures and transfers out in the general fund were \$263,158 below amended appropriations.

Revenues for the year ended September 30, 2019 were \$89,019 higher than budgeted. This increase was primarily due to state sources. During the current year, the budget was amended in a legally permissible manner.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019 amounted to \$61,720,728 (net of accumulated depreciation). Of this amount, \$18,946,040 was for its governmental activities and \$42,774,688 was for its business-type activities. This investment in capital assets includes land and land improvements, construction in process, buildings and improvements, equipment and vehicles, and infrastructure.

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

Long-term Debt

Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund, enterprise fund, or internal service fund. Debt is classified as long-term if the debt matures in a period greater than one year. The City made principal payments of \$910,659 during the current fiscal year.

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

Economic Factors and Next Year's Budgets and Rates

The City of Sturgis serves approximately 11,000 residents and is located just north of the Michigan-Indiana border in St. Joseph County. The local economic base includes a variety of mid-sized and small manufacturers, a hospital, schools, and service providers. The City 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.

In 2012 the City embarked upon the Sturgis 2022 initiative to create a vision for the future of Sturgis that could be embraced by the whole community. After reviewing all the feedback, the Commission adopted two focus areas to help guide future improvements in Sturgis. The two focus areas identified Sturgis as a "Great Place to Do Business" and a "Community of Choice". Nine specific goals were established to measure success in achieving these two focus areas. Annually, the status of these measurable goals is reported to the citizens and is incorporated into the planning and budgeting process.

The City Commission has adopted a conservative budget for 2019-2020. This includes a decrease in fund balance for all governmental funds of \$1,342,490 or 17.66% of total beginning fund balances, primarily due to street project funding, as well as maintenance of the City's current below-maximum tax levy. The City has maintained stable financial operations and strong general fund reserves which provide flexibility in the wake of uncertain economic times and legislative actions. The City has continued to address a challenging budget that includes level revenue and increasing expenditures.

The City is anticipating a slight increase in property tax revenue of approximately one percent due to inflation. The effect of decreased personal property tax is mitigated by state reimbursement to municipalities for a portion of the lost tax revenue via the Local Community Stabilization Authority. The property tax base consists of 49% residential, 19% industrial, 22% commercial and 10% personal. State revenue sharing is up slightly from the previous year. The PILOT, which is paid to the general fund from the utility funds, is up four percent due to increased utility revenue.

Investment earnings are expected to remain low due to anticipated interest rates of return on fixed income investments.

The City's charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mils on the taxable value of each property. The City levied an operating millage of 10.4623 mils, which compares favorably to other like cities in southwest Michigan. For 2020, the inflation rate multiplier which is applied to taxable values is 1.9% compared to 2.4E in 2019.

Requests for Information

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

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

Basic Financial Statements

City of Sturgis
Statement of Net Position
September 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 15,748,170	\$ 20,933,606	\$ 36,681,776	\$ 261,945
Accounts Receivable	72,608	3,784,091	3,856,699	2,944
Notes Receivable	--	107,877	107,877	--
Taxes Receivable	180,478	--	180,478	4,504
Special Assessments Receivable	24,625	--	24,625	--
Lease Receivable	--	--	--	350,000
Interest Receivable	8,638	264,060	272,698	--
Inventory	35,210	1,542,854	1,578,064	--
Prepaid Items	270,348	--	270,348	2,787
Due from Other Governmental Units	111,286	--	111,286	--
Total Current Assets	16,451,363	26,632,488	43,083,851	622,180
<i>Noncurrent Assets</i>				
Restricted Assets	--	185,492	185,492	--
Long-term Notes Receivable	--	1,700,000	1,700,000	--
Long-term Lease Receivable	--	--	--	7,510,000
Capital Assets not being Depreciated	881,007	2,614,904	3,495,911	68,306
Capital Assets being Depreciated	18,065,033	40,159,784	58,224,817	107,680
Total Assets	35,397,403	71,292,668	106,690,071	8,308,166
DEFERRED OUTFLOWS OF RESOURCES				
Pension	299,895	199,928	499,823	--
OPEB	204,521	64,585	269,106	--
Total Deferred Outflows of Resources	504,416	264,513	768,929	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	1,363,640	2,021,702	3,385,342	5,228
Accrued Expenses	229,885	439,781	669,666	--
Accrued Interest	--	40,347	40,347	125,868
Customer Deposits	2,347	248,416	250,763	--
Unearned Revenue	161,577	--	161,577	--
Current Portion of Long-term Debt	146,343	794,218	940,561	384,468
Total Current Liabilities	1,903,792	3,544,464	5,448,256	515,564
<i>Noncurrent Liabilities</i>				
Compensated Absences	618,840	231,000	849,840	--
Long-term Debt	1,107,013	7,630,478	8,737,491	9,335,801
Other Post-employment Benefits	1,313,014	414,635	1,727,649	--
Net Pension Liability	433,896	289,265	723,161	--
Total Liabilities	5,376,555	12,109,842	17,486,397	9,851,365
DEFERRED INFLOWS OF RESOURCES				
Pension	41,756	27,838	69,594	--
OPEB	749,942	236,824	986,766	--
Taxes Intended to Finance a Subsequent Year	2,282,408	--	2,282,408	40,089
Total Deferred Inflows of Resources	3,074,106	264,662	3,338,768	40,089
NET POSITION				
Net Investment in Capital Assets	17,692,684	34,349,992	52,042,676	82,725
<i>Restricted for:</i>				
Debt Service	--	180,492	180,492	--
Streets	2,594,897	--	2,594,897	--
Cemetery Trust	518,911	--	518,911	--
Nonexpendable Endowments	144,222	--	144,222	--
<i>Unrestricted</i>	6,500,444	24,652,193	31,152,637	(1,666,013)
Total Net Position	\$ 27,451,158	\$ 59,182,677	\$ 86,633,835	\$ (1,583,288)

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

City of Sturgis
Statement of Activities
For the year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
Legislative	\$ 41,255	\$ --	\$ --	\$ --	\$ (41,255)	\$ --	\$ (41,255)	\$ --
General Government	1,771,034	1,381,166	3,300	--	(386,568)	--	(386,568)	--
Public Safety	4,743,712	102,363	1,289,348	--	(3,352,001)	--	(3,352,001)	--
Public Works	3,140,005	227,976	1,779,803	--	(1,132,226)	--	(1,132,226)	--
Health and Welfare	1,000	--	--	--	(1,000)	--	(1,000)	--
Recreation and Culture	2,341,035	902,597	84,382	75,876	(1,278,180)	--	(1,278,180)	--
Community and Economic Development	292,086	--	10,031	--	(282,055)	--	(282,055)	--
Interest on Long-term Debt	48,239	--	--	--	(48,239)	--	(48,239)	--
Total Governmental Activities	12,378,366	2,614,102	3,166,864	75,876	(6,521,524)	--	(6,521,524)	--
Business-type Activities:								
Electric	26,323,695	26,288,877	--	--	--	(34,818)	(34,818)	--
Sanitary Sewer	2,995,362	3,417,331	--	--	--	421,969	421,969	--
Water	1,572,340	1,592,152	--	--	--	19,812	19,812	--
Total Business-type Activities	30,891,397	31,298,360	--	--	--	406,963	406,963	--
Total Primary Government	\$ 43,269,763	\$ 33,912,462	\$ 3,166,864	\$ 75,876	\$ (6,521,524)	\$ 406,963	\$ (6,114,561)	--
Component Units								
Brownfield Redevelopment Authority	\$ 185,724	\$ --	\$ --	\$ --	--	--	--	(185,724)
Local Development Finance Authority	29	--	--	--	--	--	--	(29)
Building Authority	308,913	309,163	--	--	--	--	--	250
Downtown Development Authority	106,984	16,904	2,931	--	--	--	--	(87,149)
Total Component Units	\$ 601,650	\$ 326,067	\$ 2,931	\$ --	--	--	--	(272,652)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					3,330,713	--	3,330,713	350,773
Investment Income					352,651	690,569	1,043,220	1,208
State Sources					1,098,890	--	1,098,890	--
Payments in Lieu of Taxes					2,631,917	--	2,631,917	--
Gain on Sale of Assets					67,400	--	67,400	--
Other Revenue					241,306	474,932	716,238	14,742
Transfers					(113,640)	113,640	--	--
Total General Revenues and Transfers					7,609,237	666,188	8,275,425	366,723
Change in Net Position					1,087,713	1,686,104	2,773,817	94,071
<i>Net Position at Beginning of Period (Restated, Note 18)</i>					26,363,445	57,496,573	83,860,018	(1,677,359)
Net Position at End of Period					\$ 27,451,158	\$ 59,182,677	\$ 86,633,835	\$ (1,583,288)

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

**City of Sturgis
Balance Sheet
Governmental Funds
September 30, 2019**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 5,157,104	\$ 8,639,619	\$ 13,796,723
Accounts Receivable	33,106	21,267	54,373
Taxes Receivable	69,278	111,200	180,478
Special Assessments Receivable	2,633	21,992	24,625
Interest Receivable	8,638	--	8,638
Inventory	--	32,878	32,878
Prepaid Items	425	6,441	6,866
Due from Other Governmental Units	5,848	105,438	111,286
Total Assets	\$ 5,277,032	\$ 8,938,835	\$ 14,215,867
LIABILITIES			
Accounts Payable	\$ 57,881	\$ 1,103,334	\$ 1,161,215
Accrued Expenses	133,299	44,419	177,718
Customer Deposits	--	2,347	2,347
Unearned Revenue	50,764	110,813	161,577
Total Liabilities	241,944	1,260,913	1,502,857
DEFERRED INFLOWS OF RESOURCES			
Taxes Intended to Finance a Subsequent Year	2,260,416	21,992	2,282,408
Total Liabilities	2,502,360	1,282,905	3,785,265
FUND BALANCE			
Nonspendable	425	183,541	183,966
Restricted	--	3,113,808	3,113,808
Committed	--	4,323,311	4,323,311
Assigned	--	35,270	35,270
Unassigned	2,774,247	--	2,774,247
Total Fund Balance	2,774,672	7,655,930	10,430,602
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,277,032	\$ 8,938,835	\$ 14,215,867

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

City of Sturgis
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2019

Total Fund Balance - Governmental Funds	\$	10,430,602
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		2,799,096
General government capital assets of \$34,378,205, net of accumulated depreciation of \$16,790,903, are not financial resources and, accordingly, are not reported in the funds.		17,587,302
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(175,757)
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.		(618,840)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(1,858,435)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(712,810)
Total Net Position - Governmental Activities	\$	<u>27,451,158</u>

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

City of Sturgis
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year Ended September 30, 2019

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property Taxes	\$ 2,445,106	\$ 885,607	\$ 3,330,713
Licenses and Permits	56,289	92,299	148,588
State Sources	2,388,238	1,779,803	4,168,041
Charges for Services	242,887	1,023,982	1,266,869
Fines and Forfeits	21,384	--	21,384
Contributions	7,750	165,839	173,589
Payments in Lieu of Taxes	2,631,917	--	2,631,917
Administrative Reimbursement	1,067,160	--	1,067,160
Rental Income	9,923	100,178	110,101
Other	160,547	80,759	241,306
Investment Income	211,723	110,221	321,944
Total Revenues	<u>9,242,924</u>	<u>4,238,688</u>	<u>13,481,612</u>
Expenditures			
Legislative	42,993	--	42,993
General Government	1,253,940	376,161	1,630,101
Public Safety	4,561,602	128,917	4,690,519
Public Works	442,021	1,690,460	2,132,481
Health and Welfare	1,000	--	1,000
Recreation and Culture	660,557	1,354,793	2,015,350
Community and Economic Development	178,798	113,723	292,521
Capital Outlay	132,506	924,308	1,056,814
Debt Service - Principal	12,954	63,594	76,548
Debt Service - Interest	5,956	30,386	36,342
Total Expenditures	<u>7,292,327</u>	<u>4,682,342</u>	<u>11,974,669</u>
Excess of Revenues Over (Under) Expenditures	<u>1,950,597</u>	<u>(443,654)</u>	<u>1,506,943</u>
Other Financing Sources (Uses)			
Transfers In	--	2,189,143	2,189,143
Transfers Out	(2,114,200)	(188,583)	(2,302,783)
Net Other Financing Sources (Uses)	<u>(2,114,200)</u>	<u>2,000,560</u>	<u>(113,640)</u>
Net Change in Fund Balance	(163,603)	1,556,906	1,393,303
<i>Fund Balance at Beginning of Period (Restated, Note 18)</i>	2,938,275	6,099,024	9,037,299
Fund Balance at End of Period	<u>\$ 2,774,672</u>	<u>\$ 7,655,930</u>	<u>\$ 10,430,602</u>

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

City of Sturgis
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the year Ended September 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$	1,393,303
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		90,365
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$1,590,547 is in excess of capital outlay expenditures of \$1,056,814.		(533,733)
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year increase is to decrease net position.		(25,680)
The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.		(456,464)
The statement of activities reports changes to net OPEB liability and OPEB related deferrals as OPEB expense; however, the expenditures recorded on the governmental funds equals actual OPEB contributions.		543,374
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. In addition, amortization of bond premium are reductions in long-term debt in the government-wide financial statements.		76,548
Changes in Net Position - Governmental Activities	\$	<u>1,087,713</u>

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

City of Sturgis
Statement of Net Position
Proprietary Funds
September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental
	Electric	Sanitary Sewer	Water	Total Enterprise Funds	Activities Internal Service Funds
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 16,896,532	\$ 3,118,943	\$ 918,131	\$ 20,933,606	\$ 1,951,447
Accounts Receivable	3,275,770	347,504	160,817	3,784,091	18,235
Notes Receivable	107,877	--	--	107,877	--
Interest Receivable	261,070	1,495	1,495	264,060	--
Inventory	1,433,618	52,544	56,692	1,542,854	2,332
Prepaid Items	--	--	--	--	263,482
Total Current Assets	21,974,867	3,520,486	1,137,135	26,632,488	2,235,496
<i>Noncurrent Assets</i>					
Restricted Assets	76,492	109,000	--	185,492	--
Long-term Notes Receivable	1,700,000	--	--	1,700,000	--
Capital Assets not being Depreciated	1,917,334	617,717	79,853	2,614,904	--
Capital Assets being Depreciated	19,122,972	15,244,884	5,791,928	40,159,784	1,358,738
Advances Due from Other Funds	475,242	--	--	475,242	--
Total Assets	45,266,907	19,492,087	7,008,916	71,767,910	3,594,234
DEFERRED OUTFLOWS OF RESOURCES					
Pension	159,943	29,989	9,996	199,928	--
OPEB	51,130	8,073	5,382	64,585	--
Total Deferred Outflows of Resources	211,073	38,062	15,378	264,513	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	1,879,915	117,684	24,103	2,021,702	202,425
Accrued Expenses	403,787	21,143	14,851	439,781	52,167
Accrued Interest	33,261	3,543	3,543	40,347	--
Customer Deposits	248,416	--	--	248,416	--
Current Portion of Long-term Debt	188,990	530,114	75,114	794,218	67,310
Total Current Liabilities	2,754,369	672,484	117,611	3,544,464	321,902
<i>Noncurrent Liabilities</i>					
Compensated Absences	184,000	38,000	9,000	231,000	--
Long-term Debt	1,253,298	5,818,231	558,949	7,630,478	473,236
Other Post-employment Benefits	328,253	51,829	34,553	414,635	--
Net Pension Liability	231,412	43,390	14,463	289,265	--
Advances Due To Other Funds	--	--	475,242	475,242	--
Total Liabilities	4,751,332	6,623,934	1,209,818	12,585,084	795,138
DEFERRED INFLOWS OF RESOURCES					
Pension	22,270	4,176	1,392	27,838	--
OPEB	187,486	29,603	19,735	236,824	--
Total Deferred Inflows of Resources	209,756	33,779	21,127	264,662	--
NET POSITION					
Net Investment in Capital Assets	19,598,018	9,514,256	5,237,718	34,349,992	818,192
<i>Restricted for:</i>					
Debt Service	71,492	109,000	--	180,492	--
<i>Unrestricted</i>	20,847,382	3,249,180	555,631	24,652,193	1,980,904
Total Net Position	\$ 40,516,892	\$ 12,872,436	\$ 5,793,349	\$ 59,182,677	\$ 2,799,096

City of Sturgis
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year Ended September 30, 2019

	Business-type Activities - Enterprise Funds				Governmental
	Electric	Sanitary Sewer	Water	Total Enterprise Funds	Internal Service Funds
Operating Revenues					
Charges for Services	\$ 26,192,858	\$ 3,415,739	\$ 1,591,652	\$ 31,200,249	\$ 4,079,231
Total Operating Revenues	<u>26,192,858</u>	<u>3,415,739</u>	<u>1,591,652</u>	<u>31,200,249</u>	<u>4,079,231</u>
Operating Expenses					
Material, Maintenance, and Other	19,610,246	801,967	595,922	21,008,135	394,812
General and Administrative	2,599,381	710,640	424,065	3,734,086	138,672
Payments in Lieu of Taxes	2,295,060	225,120	104,640	2,624,820	--
Depreciation	1,738,506	1,106,965	416,728	3,262,199	557,203
Insurance Premiums and Claims	--	--	--	--	2,984,389
Total Operating Expenses	<u>26,243,193</u>	<u>2,844,692</u>	<u>1,541,355</u>	<u>30,629,240</u>	<u>4,075,076</u>
Operating Income (Loss)	<u>(50,335)</u>	<u>571,047</u>	<u>50,297</u>	<u>571,009</u>	<u>4,155</u>
Non-Operating Revenues (Expenses)					
Investment Income	612,953	53,110	24,506	690,569	30,707
Gain on Sale of Assets	--	--	--	--	67,400
Rental Income	96,019	1,592	500	98,111	--
Other Revenue	446,794	23,688	4,450	474,932	--
Interest Expense	(80,502)	(150,670)	(30,985)	(262,157)	(11,897)
Net Non-Operating Revenues (Expenses)	<u>1,075,264</u>	<u>(72,280)</u>	<u>(1,529)</u>	<u>1,001,455</u>	<u>86,210</u>
Income Before Contributions and Transfers	<u>1,024,929</u>	<u>498,767</u>	<u>48,768</u>	<u>1,572,464</u>	<u>90,365</u>
Transfers In	80,040	33,600	--	113,640	--
Change In Net Position	<u>1,104,969</u>	<u>532,367</u>	<u>48,768</u>	<u>1,686,104</u>	<u>90,365</u>
Net Position at Beginning of Period	39,411,923	12,340,069	5,744,581	57,496,573	2,708,731
Net Position at End of Period	<u>\$ 40,516,892</u>	<u>\$ 12,872,436</u>	<u>\$ 5,793,349</u>	<u>\$ 59,182,677</u>	<u>\$ 2,799,096</u>

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

City of Sturgis
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2019

	<u>Business-type Activities - Enterprise Funds</u>			Total Enterprise Funds	Governmental Activities Internal Service Funds
	<u>Electric</u>	<u>Sanitary Sewer</u>	<u>Water</u>		
Cash Flows from Operating Activities					
Cash received from Interfund Services	\$ --	\$ --	\$ --	\$ --	\$ 4,096,088
Cash received from Customers and Users	26,112,540	3,419,752	1,601,423	31,133,715	--
Cash payments to Employees and Suppliers	(24,480,134)	(1,609,193)	(1,107,331)	(27,196,658)	(3,723,475)
Net Cash Provided by Operating Activities	<u>1,632,406</u>	<u>1,810,559</u>	<u>494,092</u>	<u>3,937,057</u>	<u>372,613</u>
Cash Flows from Capital and Related Financing Activities					
Change in Capital Assets	(1,560,953)	(733,860)	(532,757)	(2,827,570)	(369,817)
Principal and Interest Paid on Long-term Debt	(266,320)	(665,462)	(111,812)	(1,043,594)	(74,708)
Net Cash Used by Capital and Related Financing Activities	<u>(1,827,273)</u>	<u>(1,399,322)</u>	<u>(644,569)</u>	<u>(3,871,164)</u>	<u>(444,525)</u>
Cash Flows from Noncapital and Related Financing Activities					
Interfund Advances	149,502	--	(149,502)	--	--
Net Transfers	80,040	33,600	--	113,640	--
Rental Income	96,019	1,592	500	98,111	--
Other Non-operating Revenue	446,794	23,688	4,450	474,932	--
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>772,355</u>	<u>58,880</u>	<u>(144,552)</u>	<u>686,683</u>	<u>--</u>
Cash Flows from Investing Activities					
Investment Income	612,953	53,110	24,506	690,569	30,707
Collection on Notes Receivable	110,882	--	--	110,882	--
Net Cash Provided by Investing Activities	<u>723,835</u>	<u>53,110</u>	<u>24,506</u>	<u>801,451</u>	<u>30,707</u>
Net Increase (Decrease) in Cash and Investments	1,301,323	523,227	(270,523)	1,554,027	(41,205)
<i>Cash and Investments - Beginning of Year</i>	15,671,701	2,704,716	1,188,654	19,565,071	1,992,652
<i>Cash and Investments - End of Year</i>	<u>\$ 16,973,024</u>	<u>\$ 3,227,943</u>	<u>\$ 918,131</u>	<u>\$ 21,119,098</u>	<u>\$ 1,951,447</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating Income (Loss)	(50,335)	571,047	50,297	571,009	4,155
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Depreciation Expense	1,738,506	1,106,965	416,728	3,262,199	557,203
Changes in Assets and Liabilities					
Accounts Receivable	70,928	3,868	5,626	80,422	16,857
Interest Receivable	(151,246)	145	145	(150,956)	--
Inventory	(170,934)	11,987	925	(158,022)	256
Prepaid Items	--	--	--	--	26,237
Due from Other Governmental Units	--	--	4,000	4,000	--
Accounts Payable	58,753	89,738	7,781	156,272	(7,226)
Accrued Expenses	23,877	2,612	7,673	34,162	(224,869)
Customer Deposits	5,251	--	--	5,251	--
Net Pension Asset/Liability	290,974	54,558	18,186	363,718	--
Pension Related Deferred Outflows and Inflows of Resources	(47,525)	(8,910)	(2,970)	(59,405)	--
Other Post-Employment Benefits (OPEB)	(175,784)	(27,756)	(18,504)	(222,044)	--
OPEB Related Deferred Outflows and Inflows of Resources	39,941	6,305	4,205	50,451	--
Net Cash Provided by Operating Activities	<u>\$ 1,632,406</u>	<u>\$ 1,810,559</u>	<u>\$ 494,092</u>	<u>\$ 3,937,057</u>	<u>\$ 372,613</u>

City of Sturgis
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2019

	<u>Pension and Benefit Trust</u>		<u>Agency</u>
	Other		Agency
	Postemployment Benefit Trust	Pension Trust	
ASSETS			
Cash and Investments	\$ 8,296,878	\$ 36,936,733	\$ 790,051
Interest Receivable	--	68,276	--
Due from Other Governmental Units	--	2,852,820	--
<i>Total Assets</i>	<u>8,296,878</u>	<u>39,857,829</u>	<u>790,051</u>
LIABILITIES			
Accounts Payable	2,250	--	--
Due to Other Governmental Units	--	2,878,036	790,051
<i>Total Liabilities</i>	<u>2,250</u>	<u>2,878,036</u>	<u>790,051</u>
NET POSITION			
Held in Trust	<u>\$ 8,294,628</u>	<u>\$ 36,979,793</u>	<u>\$ --</u>

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

City of Sturgis
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year Ended September 30, 2019

	Other Postemployment Benefit Trust	Pension Trust
Additions		
Employer	\$ 655,140	\$ 451,987
Employee/Retiree	114,852	432,346
Investment Income	199,001	949,607
Other Revenue	--	743,747
Total Additions	968,993	2,577,687
Deductions		
Benefits	628,196	1,885,898
Refunds	--	18,998
Administrative Expense	12,250	254,902
Total Deductions	640,446	2,159,798
Change in Net Position	328,547	417,889
<i>Net Position at Beginning of Period</i>	7,966,081	36,561,904
Net Position at End of Period	\$ 8,294,628	\$ 36,979,793

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

City of Sturgis
Combining Statement of Net Position
Component Units
September 30, 2019

	Brownfield Redevelopment Authority	Local Development Finance Authority	Building Authority	Downtown Development Authority	Total Component Units
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 74,045	\$ 63,629	\$ 2,569	\$ 121,702	\$ 261,945
Accounts Receivable	--	--	--	2,944	2,944
Taxes Receivable	--	4,504	--	--	4,504
Lease Receivable	--	--	350,000	--	350,000
Prepaid Items	--	--	--	2,787	2,787
Total Current Assets	74,045	68,133	352,569	127,433	622,180
<i>Noncurrent Assets</i>					
Long-term Lease Receivable	--	--	7,510,000	--	7,510,000
Capital Assets not being Depreciated	--	68,306	--	--	68,306
Capital Assets being Depreciated	--	--	--	107,680	107,680
Total Assets	74,045	136,439	7,862,569	235,113	8,308,166
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	--	--	--	5,228	5,228
Accrued Interest	125,868	--	--	--	125,868
Current Portion of Long-term Debt	21,975	--	350,000	12,493	384,468
Total Current Liabilities	147,843	--	350,000	17,721	515,564
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,745,033	--	7,510,000	80,768	9,335,801
Total Liabilities	1,892,876	--	7,860,000	98,489	9,851,365
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	--	4,504	--	35,585	40,089
Total Deferred Inflows of Resources	--	4,504	--	35,585	40,089
NET POSITION					
Net Investment in Capital Assets	--	68,306	--	14,419	82,725
<i>Unrestricted</i>	(1,818,831)	63,629	2,569	86,620	(1,666,013)
Total Net Position	\$ (1,818,831)	\$ 131,935	\$ 2,569	\$ 101,039	\$ (1,583,288)

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

City of Sturgis
Combining Statement of Activities
Component Units
For the year Ended September 30, 2019

	Brownfield Redevelopment Authority	Local Development Finance Authority	Building Authority	Downtown Development Authority	Total Component Units
Expenses					
Community and Economic Development	\$ 141,576	\$ 29	\$ --	\$ 106,984	\$ 248,589
Interest on Long-term Debt	44,148	--	308,913	--	353,061
Total Expenses	185,724	29	308,913	106,984	601,650
Program Revenues					
Charges for Services	--	--	309,163	16,904	326,067
Operating Grants and Contributions	--	--	--	2,931	2,931
Total Program Revenues	--	--	309,163	19,835	328,998
Net Program Revenues (Expenses)	(185,724)	(29)	250	(87,149)	(272,652)
General Revenue					
Property Taxes	258,220	48,941	--	43,612	350,773
Investment Income	--	680	--	528	1,208
Other Revenue	--	--	--	14,742	14,742
Total General Revenues	258,220	49,621	--	58,882	366,723
Change in Net Position	72,496	49,592	250	(28,267)	94,071
<i>Net Position at Beginning of Period</i>	(1,891,327)	82,343	2,319	129,306	(1,677,359)
Net Position at End of Period	\$ (1,818,831)	\$ 131,935	\$ 2,569	\$ 101,039	\$ (1,583,288)

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

Notes to the Financial Statements

City of Sturgis

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Discretely Presented Component Units

The *Downtown Development Authority* (the “DDA”) was created as a tax-increment financing (TIF) district to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the city commission and the Authority is fiscally dependent on the City since the city commission approves the DDA budget and must approve any debt issuance. The component unit is audited separately from the City and complete financial statements may be obtained from the city controller’s office. Accordingly, the City has elected to omit substantially all note disclosures related to the DDA in these financial statements. The DDA’s office contact information is as follows:

130 N. Nottawa
Sturgis, Michigan 49091.

The *Brownfield Redevelopment Authority* (the “Authority”) was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed brownfield zones. The Authority is financed by the tax increment

City of Sturgis

Notes to the Financial Statements

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

The *Local Development Finance Authority's* (the "LDFA") purpose is to finance improvements, through the use of tax increment financing, within the City's borders. The LDFA was established as a tax increment financing (TIF) district in 2008 in accordance with Act 281 of the Public Acts of 1987, as amended. Members of the LDFA are approved by the city commission.

The *City of Sturgis Building Authority* was established pursuant to Act 31 of the Public Acts of 1948, as amended. Its purpose is to provide for the acquisition and construction of certain public buildings including hospital buildings and additions. Members of the Building Authority are approved by the city commission. The Building Authority is treated as a discretely presented component unit as the only project has been for hospital building addition operated by Sturgis Hospital, Inc. a non-component unit of the city. Debt obligations are financed by a lease agreement with Sturgis Hospital, Inc.

Basis of Accounting - Government-wide Financial Statements

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

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

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

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

City of Sturgis

Notes to the Financial Statements

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.

Basis of Accounting - Fund Financial Statements

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

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

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

The City reports the following major funds:

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

Enterprise Funds

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

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

City of Sturgis

Notes to the Financial Statements

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

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

Governmental Funds

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

Revenue Recognition

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

Expenditure Recognition

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

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

Special Revenue Funds

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

City of Sturgis

Notes to the Financial Statements

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.

Proprietary Funds

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

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

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

Enterprise Funds

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

Internal Service Funds

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

Fiduciary Funds (Not Included in Government-wide Financial Statements)

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

City of Sturgis

Notes to the Financial Statements

Agency Funds

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

Pension Trust Funds

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

Other Postemployment Benefit Trust Funds

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

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted at the City hall to obtain public comments.
- Prior to August 20th the budget and annual appropriations act are legally adopted by the City Commission.
- Formal budget integration is employed as a management control device during the year for all budgetary funds.
- Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.

City of Sturgis

Notes to the Financial Statements

- Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In the current year, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- All budget appropriations lapse at the end of the year.
- Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

Deposits and Investments

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

Receivables and Payables

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and unearned revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$11.8894 per \$1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2019, was \$10.4623 per \$1,000 of taxable valuation. The tax rate to finance City street/sidewalk improvements for the year ended September

City of Sturgis

Notes to the Financial Statements

30, 2019, was \$3.00 per \$1,000 taxable valuation. The 2018 taxable value of the City was \$223,658,798.

Receivables consist of amounts due from the state and federal government for various payments and grants and receivables for charges for services provided to local governmental units, accounts receivable related to charges for services, interest receivable, and other amounts owed to the City at year-end.

Inventories and Prepaid Items

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

Restricted Cash and Cash Equivalents

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

Capital Assets and Depreciation

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

City of Sturgis

Notes to the Financial Statements

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

Unearned Revenue

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan and other postemployment benefits plan.

Other Postemployment Benefits

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments

City of Sturgis

Notes to the Financial Statements

(including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

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

Long-term Obligations

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

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

Deferred Inflows of Resources

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

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.

City of Sturgis

Notes to the Financial Statements

Net position is classified as “net investment in capital assets”, “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 cannot 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

City of Sturgis

Notes to the Financial Statements

During the year ended September 30, 2019 the City incurred no significant expenditures in excess of the amounts appropriated at the legal level of budgetary control.

Net Position Deficits

The Brownfield Redevelopment Authority had an unrestricted deficit net position of \$(1,818,831).

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Primary Government:			
Cash and investments	\$ 4,788,952	\$ 31,892,824	\$ 36,681,776
Component Units:			
Cash and investments	261,945	-	261,945
Fiduciary Funds:			
Cash and investments	787,351	45,236,311	46,023,662
Total	<u>\$ 5,838,248</u>	<u>\$ 77,129,135</u>	<u>\$ 82,967,383</u>

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

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

City of Sturgis

Notes to the Financial Statements

As of September 30, 2019, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>< Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>> Than 10</u>	<u>S&P Rating</u>
Primary Government:						
Mutual Funds	\$ 482,289	\$ -	\$ -	\$ -	\$ -	Not Rated
MI Class (Pooled Investments)	5,660,770	-	-	-	-	AAAm
Bank Deposit Program	24,009	-	-	-	-	Not Rated
U.S. Government Agencies	25,546,266	11,476,145	14,070,121	-	-	\$19,096,736 AA+, balance not rated
Assets in Community Foundation	179,490	-	-	-	-	Not Rated
Total Primary Government:	<u>31,892,824</u>	<u>11,476,145</u>	<u>14,070,121</u>	<u>-</u>	<u>-</u>	
Pension Trust Fund:						
Open END MF - Fixed Inc. Tax	4,365,252	-	-	-	-	
U.S. Government Agencies	4,033,122	403,314	443,644	241,987	2,944,177	AAA-AA
Corporate Bonds and Notes	2,464,372	-	443,587	1,330,760	690,025	AAA-AA
Bank Deposit Program	576,354	-	-	-	-	Not Rated
Common and Preferred Stocks	25,497,220	-	-	-	-	N/A
Total Pension Trust Fund:	<u>36,936,320</u>	<u>403,314</u>	<u>887,231</u>	<u>1,572,747</u>	<u>3,634,202</u>	
OPEB Trust Fund:						
MERS Established Market Fund	8,299,991	-	-	-	-	Not Rated
Total Investments:	<u>\$ 77,129,135</u>	<u>\$ 11,879,459</u>	<u>\$ 14,957,352</u>	<u>\$ 1,572,747</u>	<u>\$ 3,634,202</u>	

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2019, the City had \$758,531 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;

City of Sturgis

Notes to the Financial Statements

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.

Fair Value Measurement

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

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

The City has the following recurring fair value measurements as of September 30, 2019:

Primary Government

- U.S. Government Agency debt obligations of \$25,546,266 are valued using other observable inputs (level 2 inputs).
- Mutual funds of \$482,289 are valued using other observable inputs (level 2 inputs).
- Bank Deposit Program of \$24,009 are valued using other observable inputs (level 2 inputs).
- The Michigan Class Pool of \$5,660,770 are interests in pooled investments and are

City of Sturgis

Notes to the Financial Statements

measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

Pension Trust Fund

- U.S. Government Agency debt obligations of \$4,033,122 and Corporate Bonds and Notes of \$2,464,372 and common and Preferred Equities of \$25,497,220 are valued using quoted market prices (Level 1 inputs).
- The Open ENDMF of \$4,365,252 and Morgan Stanley Bank Deposit Program of \$576,354 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

OPEB Trust Fund

- The MERS Established Market Fund of \$8,299,991 are interests in pooled investments and are measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient (Level 2 inputs).

Permanent Fund

- Deposits held with the Sturgis Area Community Foundation, with a balance of \$179,490, are valued using other observable inputs (level 2 inputs).

Beneficial Interest in Assets Held by Foundation

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

NOTE 4 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE

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

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds

City of Sturgis

Notes to the Financial Statements

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:

	Unavailable Revenue	Unearned Revenue	Total
<i>Primary Government</i>			
Property taxes levied and collected for next fiscal year's operation	\$ 2,282,408	\$ -	\$ 2,282,408
Customer deposits for future services / events	-	161,577	161,577
<i>Total Primary Government</i>	\$ 2,282,408	\$ 161,577	\$ 2,443,985
<i>Component Units</i>			
Property taxes levied and collected for next fiscal year's operation	\$ 4,504	\$ -	\$ 4,504
Accounts receivable not collected within 60 days	68,318	-	68,318
<i>Total Component Units</i>	\$ 72,822	\$ -	\$ 72,822

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables, at September 30, 2019, consisted of an advance from the electric fund to the water fund in the amount of \$475,242.

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 the Financial Statements

Transfers consisted of the following for the year ended September 30, 2019:

Transfer In	Transfer Out	Amount
Electric	General	\$ 80,040
Sanitary Sewer	General	33,600
Nonmajor Governmental Funds	General	2,000,560
Nonmajor Governmental Funds	Nonmajor Governmental Funds	188,583

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

NOTE 6 - CAPITAL ASSETS

Capital assets activity of the primary government for the year ended September 30, 2019 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 510,334	\$ -	\$ -	\$ -	\$ 510,334
Construction in process	1,785,516	370,673	-	(1,785,516)	370,673
<i>Subtotal</i>	2,295,850	370,673	-	(1,785,516)	881,007
Capital assets being depreciated					
Infrastructure	13,192,487	259,798	-	-	13,452,285
Land improvements	6,559,865	174,137	-	1,530,288	8,264,290
Buildings and improvements	9,842,845	82,641	-	255,228	10,180,714
Machinery and equipment	2,634,049	490,730	(159,239)	-	2,965,540
Vehicles	4,652,341	116,052	(64,096)	-	4,704,297
Office furniture and equipment	74,841	-	-	-	74,841
<i>Subtotal</i>	36,956,428	1,123,358	(223,335)	1,785,516	39,641,967
Less accumulated depreciation					
Infrastructure	4,964,101	897,598	-	-	5,861,699
Land improvements	3,189,762	295,406	-	-	3,485,168
Buildings and improvements	5,893,585	314,406	-	-	6,207,991
Machinery and equipment	2,180,590	217,638	(159,239)	-	2,238,989
Vehicles	3,349,640	422,702	(64,096)	-	3,708,246
Office furniture and equipment	74,841	-	-	-	74,841
<i>Subtotal</i>	19,652,519	2,147,750	(223,335)	-	21,576,934
Capital assets being depreciated, net	17,303,909	(1,024,392)	-	-	18,065,033
<i>Capital assets, net</i>	\$ 19,599,759	\$ (653,719)	\$ -	\$ -	\$ 18,946,040

City of Sturgis

Notes to the Financial Statements

Business-type Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	\$ 641,354	\$ -	\$ -	\$ 641,354
Construction in Process	922,424	1,051,126	-	1,973,550
<i>Subtotal</i>	<u>1,563,778</u>	<u>1,051,126</u>	<u>-</u>	<u>2,614,904</u>
Capital assets being depreciated				
Land Improvements	4,322,994	-	-	4,322,994
Building, Improvements, and System	113,030,978	1,776,444	-	114,807,422
Machinery and Equipment	613,271	-	-	613,271
Office Furniture and Equipment	95,789	-	-	95,789
<i>Subtotal</i>	<u>118,063,032</u>	<u>1,776,444</u>	<u>-</u>	<u>119,839,476</u>
Less accumulated depreciation				
Land Improvements	3,551,720	113,171	-	3,664,891
Building, Improvements, and System	72,372,305	3,134,477	-	75,506,782
Machinery and Equipment	397,679	14,551	-	412,230
Office Furniture and Equipment	95,789	-	-	95,789
<i>Subtotal</i>	<u>76,417,493</u>	<u>3,262,199</u>	<u>-</u>	<u>79,679,692</u>
Capital assets being depreciated, net	41,645,539	(1,485,755)	-	40,159,784
Capital assets, net	<u>\$ 43,209,317</u>	<u>\$ (434,629)</u>	<u>\$ -</u>	<u>\$ 42,774,688</u>

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

Governmental Activities

General Government	\$ 104,389
Public Safety	122,719
Public Works	1,033,843
Recreation and Culture	329,596
Internal Service Funds	557,203
	<u>\$ 2,147,750</u>

Business-type Activities

Electric	\$ 1,738,506
Sanitary Sewer	1,106,965
Water	416,728
	<u>\$ 3,262,199</u>

The Local Development Finance Authority, a discretely presented component unit, had \$68,306 in capital assets not being depreciated during the year ended September 30, 2019.

City of Sturgis

Notes to the Financial Statements

NOTE 7 - LONG-TERM DEBT

Following is a summary of governmental activities long-term debt transactions for the year ended September 30, 2019:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Capital Improvement Bonds	\$ 565,426	\$ -	\$ (63,700)	\$ 501,726	\$ 65,782
Fire Truck Note Payable	158,651	-	(30,165)	128,486	34,260
Fire Vehicle Note Payable	444,706	-	(32,646)	412,060	33,050
Gym Equipment Note Payable	223,932	-	(12,848)	211,084	13,251
Total Long-term Debt	<u>1,392,715</u>	<u>-</u>	<u>(139,359)</u>	<u>1,253,356</u>	<u>146,343</u>
Compensated Absences	593,160	25,680	-	618,840	-
Total Governmental Activities	<u>\$ 1,985,875</u>	<u>\$ 25,680</u>	<u>\$ (139,359)</u>	<u>\$ 1,872,196</u>	<u>\$ 146,343</u>

Long-term debt payables at September 30, 2019 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%	\$ 501,726
Note payable to Bank in the amount of \$398,106, monthly payment of \$3,065 including interest at 4.50%, final payment due July 1, 2023, secured by Fire Truck with a net book value of \$121,644	128,486
Note payable to Bank in the amount of \$516,334, monthly payment of \$3,161 including interest at 1.23%, final payment due May 12, 2031, secured by Fire Truck with a net book value of \$509,055	412,060
Note payable to Bank in the amount of \$237,000, monthly payment of \$1,658 including interest at 3.19%, final payment due October 1, 2032, secured by gym equipment with a net book value of \$225,150	211,084
Total Governmental Activities Long-term Debt	<u>\$ 1,253,356</u>

City of Sturgis

Notes to the Financial Statements

Following is a summary of business-type activities long-term debt transactions for the year ended September 30, 2019:

Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2010 Capital Improvement Bonds	\$ 1,969,574	\$ -	\$ (221,300)	\$ 1,748,274	\$ 229,218
2007 State/Clean Water Revolving Fund Loan Payable	536,070	-	(55,000)	481,070	55,000
2007 State/Clean Water Revolving Fund Loan Payable	1,415,587	-	(135,000)	1,280,587	140,000
2008 Sanitary Sewer System Revenue Bonds	2,857,172	-	(230,000)	2,627,172	235,000
2013A State/Clean Water Revolving Fund Loan Payable	2,065,919	-	(110,000)	1,955,919	115,000
2013B State/Clean Water Revolving Fund Loan Payable	351,674	-	(20,000)	331,674	20,000
Total Long-term Debt	9,195,996	-	(771,300)	8,424,696	794,218
Compensated Absences	231,000	-	-	231,000	-
Total Business-type Activities	\$ 9,426,996	\$ -	\$ (771,300)	\$ 8,655,696	\$ 794,218

Long-term debt payables at September 30, 2019, consisted of the following individual issues:

Business-type Activities

\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 1,748,274
\$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%	481,070
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April, 2013 and ending April 1, 2028, ranging from \$115,000 to \$145,587, including interest paid semi-annually at 1.625%	1,280,587
\$5,505,000 2008 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$215,000 to \$292,172 plus interest at 2.50%, final payment due October 1, 2029	2,627,172
\$2,486,274 2013 State/Clean Water Revolving Fund loan payable in semi-annual installments ranging from \$105,000 to \$150,919 plus interest at 2.00%, final payment due April 1, 2034	1,955,919
\$476,674 2013 State/Clean Water Revolving Fund loan payable in semi-annual installments ranging from \$15,000 to \$26,674 plus interest at 2.50%, final payment due April 1, 2034	331,674

City of Sturgis

Notes to the Financial Statements

Total Business-type Activities Long-term Debt \$ 8,424,696

Debt Service Requirements

The annual requirements to service all debt outstanding for the primary government as of September 30, 2019 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 146,343	\$ 36,229	\$ 182,572	\$ 794,218	\$ 233,036	\$ 1,027,254
2021	146,412	32,872	179,284	803,103	209,645	1,012,748
2022	149,723	30,666	180,389	825,873	185,141	1,011,014
2023	144,941	24,400	169,341	843,643	159,283	1,002,926
2024	122,189	18,815	141,004	856,414	131,866	988,280
2025-2029	418,693	38,150	456,843	3,458,852	293,368	3,752,220
2030-2034	125,055	2,546	127,601	842,593	44,535	887,128
Totals	<u>\$ 1,253,356</u>	<u>\$ 183,678</u>	<u>\$ 1,437,034</u>	<u>\$ 8,424,696</u>	<u>\$ 1,256,874</u>	<u>\$ 9,681,570</u>

Discretely Presented Component Units

Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Brownfield Redevelopment Authority					
Michigan Department of Environmental Quality Note Payable	\$ 146,162	\$ -	\$ (79,154)	\$ 67,008	\$ 21,975
City of Sturgis - Electric Fund	1,700,000	-	-	1,700,000	-
Total Long-term Debt	<u>\$ 1,846,162</u>	<u>\$ -</u>	<u>\$ (79,154)</u>	<u>\$ 1,767,008</u>	<u>\$ 21,975</u>

Long-term debt payable at September 30, 2019, consisted of the following individual issues:

Note payable to Michigan Department of Environmental Quality in the amount of \$340,760, annual payment of \$33,335 including interest at 1.50%, final payment due June 26, 2024	\$ 67,008
Note payable to City of Sturgis - Electric Fund in the amount (not to exceed) \$1,700,000, deferred payments until June 1, 2021, thirty years maximum, annual payment, interest accrues at 2.468%, payments apply to principal until paid, interest balance accrues and will be paid last per Development Agreement and Brownfield Plan	<u>\$1,700,000</u>
Total	<u>\$ 1,767,008</u>

City of Sturgis

Notes to the Financial Statements

Debt Service Requirements

The annual requirements to service the Michigan Department of Environmental Quality debt outstanding as of September 30, 2019, including both principal and interest, are as follows:

	Principal	Interest	Total
2020	\$ 21,975	\$ 1,840	\$ 23,815
2021	22,689	1,483	24,172
2022	22,344	1,874	24,218
Totals	\$ 67,008	\$ 5,197	\$ 72,205

The note payable to the electric fund is unscheduled.

Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Building Authority Series 2014 Refunding Bonds	\$ 8,200,000	\$ -	\$ (340,000)	\$ 7,860,000	\$ 350,000

Long-term debt payable at September 30, 2019, consisted of the following individual issue:

Sturgis Building Authority Series 2014 Refunding Bonds, payable annually beginning October 1, 2017 and ending October 1, 2034, ranging from \$290,000 to \$745,000, including interest paid semiannually with rates ranging from 2.00% to 4.25%	<u>\$ 7,860,000</u>
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City of Sturgis

Notes to the Financial Statements

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2019 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 350,000	\$ 302,113	\$ 652,113
2021	370,000	291,613	661,613
2022	385,000	280,513	665,513
2023	410,000	268,963	678,963
2024	435,000	256,663	691,663
2025-2029	2,555,000	999,613	3,554,613
2030-2034	3,355,000	421,875	3,776,875
Totals	<u>\$ 7,860,000</u>	<u>\$ 2,821,353</u>	<u>\$ 10,681,353</u>

NOTE 8 - NOTES RECEIVABLE

At September 30, 2019, the electric fund reflected the following notes receivable:

Note receivable from Sturgis Hospital, Inc. collectible in monthly installments of \$2,247, plus interest at 6%, due in full September 30, 2023	\$ 107,877
Note receivable from Brownfield Development Authority - component unit collectible beginning in 2021 with interest accruing at 2.468%, due in full within thirty years	<u>1,700,000</u>
Total	<u>\$ 1,807,877</u>

City of Sturgis

Notes to the Financial Statements

NOTE 9 - LEASE RECEIVABLE

Discretely Presented Component Unit

Building Authority

At September 30, 2019, 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 \$ 7,860,000

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for most risks of loss to which it is exposed and to cover the majority of the health care benefits provided to City employees.

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.

During the year ended September 30, 2019, a total of \$140,517 was incurred in workers' compensation claims and related administrative costs with actual payments of \$160,517.

Changes in the workers' compensation self-insurance fund claims liability for the year ended September 30, 2019, was as follows:

Workers' Compensation Claims Liability	
Claims liability, October 1:	\$ 20,000
Current year claims and changes in estimates:	140,517
Claims payments:	<u>160,517</u>
Claims liability, September 30:	<u>\$ -</u>

For all eligible City employees, the City purchases commercial health care insurance. Stop-loss insurance coverage limits claim expense to \$65,000 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 \$3,023,746 in 2019 and are reported in the employee benefit fund.

City of Sturgis

Notes to the Financial Statements

Changes in the employee benefit fund self-insured claims liability for the year ended September 30, 2019 was as follows:

Employee Benefit Claims Liability	
Claims liability, October 1:	\$ 276,100
Current year claims and changes in estimates:	2,797,646
Claims payments:	<u>3,023,746</u>
Claims liability, September 30:	<u>\$ 50,000</u>

NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457 that is administered by ICMA Retirement Corporation. The plan, available to all City employees, permits them to defer a portion of their payroll until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Participants may contribute any amount allowed by the plan. The City will match the employee contribution at different percentages based on the employee group. In fiscal year 2019, the City contributed \$124,486 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

Note 12 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

City of Sturgis

Notes to the Financial Statements

Benefits Provided

Retirement benefits for employees are as follows:

Eligibility	Amount
Regular Retirement (no reduction factor for age)	
<p>General (hired prior to 1/1/2016) and Electric Union (hired prior to 3/1/15): Any age with 25 years of service.</p>	<p><u>Total service multiplied by:</u> General - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.</p>
<p>General (hired on or after 1/1/2016) and Electric Union (hired on or after 3/1/15): Age 55 with 25 years of service.</p>	<p>Electrical - 2.0% of FAC.</p>
<p>General and Electric: Age 60 with 10 years of service or 65 with 5 years of service.</p>	
<p>Police (hired before 10/1/2017) and Fire (hired before 10/11/2017): Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.</p>	<p>2.5% of FAC.</p>
<p>Police (hired after 10/1/2017) and Fire (hired after 10/11/2017): Age 55 with 25 years of service, or at age 60 with 10 years.</p>	
<p>Type of Final Average Compensation.</p>	<p>Fire: Highest 3 consecutive years out of last 5. Others: Highest 5 consecutive years out of last 10.</p>

City of Sturgis

Notes to the Financial Statements

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

City of Sturgis

Notes to the Financial Statements

Eligibility	Amount
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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 Worker's Compensation, additional service credit is granted for period in receipt of Worker's Compensation, and benefit is recomputed. Minimum amount - 17% of final average compensation less Social Security amount. Maximum amount - Final average compensation less Worker's Compensation less Social Security amount.
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Member Contributions

General	1.80% of gross pension wages.
Electric	4.55% of gross pension wages.
Police	3.01% of gross pension wages.
Fire	4.30% of gross pension wages.

Required contributions in excess of the Employer Cap are paid by active employees.

Contribution balances are credited with 3.0% interest annually.

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.

Required contributions in excess of the Employer Cap are paid by active employees.

City of Sturgis

Notes to the Financial Statements

Eligibility	Amount
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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 the normal pension benefits, the City will pay as a cost-of-living adjustment \$500 per year for 15 years, on a cumulative basis, to the first 2 employees who irrevocably notify the City and retire in each of the contract years commencing 10/1/2003, 2004, and 2005.
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Benefit terms, within the parameters originally established by the Retirement Board, are generally established and amended by authority of the City Commission, generally after negotiations of these terms with the affected bargaining units representing various classes of employees.

Employees Covered by Benefit Terms

At the September 30, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries receiving benefits	110
Inactive plan members entitled to but not yet receiving benefits	23
Active members	97
Total employees covered	230

Contributions

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

City of Sturgis

Notes to the Financial Statements

For the year ended September 30, 2019, the City had the following contribution rates:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General	1.80%	6.36%
Electric Union	4.55%	8.19%
Police	3.01%	20.59%
Fire	4.30%	19.26%

Net Pension Liability

The net pension liability reported at September 30, 2019 was determined using a measure of the total pension liability and the pension net position as of September 30, 2019. The September 30, 2019 total pension liability was determined by an actuarial valuation performed as of that date.

Actuarial Assumptions

The total pension liability in the September 30, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.50%

Salary Increases: 3.25% to 13.25%

Investment rate of return: 6.50%

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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

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

City of Sturgis

Notes to the Financial Statements

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global equity	55.50%	8.65%	4.80%	2.50%	3.42%
Global fixed income	18.50%	3.76%	0.70%	2.50%	0.23%
Real assets	13.50%	9.72%	1.31%	2.50%	0.97%
Diversifying strategies	12.50%	7.50%	0.94%	2.50%	0.63%
	<u>100.00%</u>		<u>7.75%</u>		<u>5.25%</u>

Discount Rate

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

Changes in Net Pension (Asset) Liability

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

Changes in Net Pension (Asset) Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension (Asset) Liability
Balance at September 30, 2018	\$ 36,375,772	\$ 36,561,904	\$ (186,132)
Service cost	838,719	-	838,719
Interest on total pension liability	2,329,774	-	2,329,774
Contributions - employer	-	662,986	(662,986)
Contributions - employee	-	221,347	(221,347)
Net investment income	-	1,502,779	(1,502,779)
Benefit payments, including refunds	(1,904,895)	(1,904,895)	-
Difference between expected and actual experience	63,583	-	63,583
Administrative expenses	-	(64,329)	64,329
Net changes	<u>1,327,181</u>	<u>417,888</u>	<u>909,293</u>
Balance at September 30, 2019	<u>\$ 37,702,953</u>	<u>\$ 36,979,792</u>	<u>\$ 723,161</u>

City of Sturgis

Notes to the Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension (asset) liability of the City	\$ 5,707,795	\$ 723,161	\$ (3,409,708)

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

For the year ended September 30, 2019, the City recognized pension expense of \$1,423,763. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 60,843	\$ -
Difference between expected and actual experience	165,007	68,142
Changes in assumptions	273,973	1,452
Total	\$ 499,823	\$ 69,594

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

Year Ending September 30,	Amount
2020	\$ 67,539
2021	(11,734)
2022	193,643
2023	180,323
2024	458

City of Sturgis

Notes to the Financial Statements

Allocation of Net Pension Liability and Related Deferred Items

At September 30, 2019 the City allocated its net pension liability and related deferrals as follows:

	Governmental	Business-type Activities			Total
	Activities	Electric	Sanitary Sewer	Water	
Deferred Outflows of Resources	\$ 299,895	\$ 159,943	\$ 29,989	\$ 9,996	\$ 499,823
Net Pension Liability	433,896	231,412	43,390	14,463	723,161
Deferred Inflows of Resources	41,756	22,270	4,176	1,392	69,594

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

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

Benefits Provided and Contributions

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

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (September 30, 2019):

Inactive plan members or beneficiaries currently receiving benefits	66
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>51</u>
Total employees covered by the Plan	<u>120</u>

City of Sturgis

Notes to the Financial Statements

Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019 and a measurement date of September 30, 2019 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50%
Investment rate of return	7.00%
Discount rate	7.00%
Average retirement age	47
Mortality	Based on RP-2014 tables

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

Discount Rate

The final equivalent single discount rate used for this year's valuation is 7.00 percent as of September 30, 2019 as the OPEB trust is expected to be sufficient to pay all future projected benefit payments based on the City's funding policy of contributing the actuarial determined contributions annually.

Investment Rate of Return

The investment rate of return was assumed to be 7.00 percent, net of OPEB plan investment expense, including inflation. The long-term expected rate of return on OPEB plan investments was determined by using the long-term expected rate of return using the target asset allocation:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Fixed Income	40.0%	3.76%
Global Equity	60.0%	8.65%

City of Sturgis

Notes to the Financial Statements

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

Changes in Net OPEB Liability	Increase (Decrease)		Net OPEB Liability
	Total OPEB Liability	Plan Net Position	
Balance at September 30, 2018	\$ 10,543,310	\$ 7,890,481	\$ 2,652,829
Service cost	79,871	-	79,871
Interest on total OPEB liability	725,959	-	725,959
Difference between expected and actual experience	(808,155)	-	(808,155)
Contributions - employer	-	655,140	(655,140)
Net investment income	-	279,965	(279,965)
Benefit payments, including refunds	(513,345)	(513,345)	-
Administrative expenses	-	(12,250)	12,250
Net changes	(515,670)	409,510	(925,180)
Balance at September 30, 2019	\$ 10,027,640	\$ 8,299,991	\$ 1,727,649

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

The following presents the net OPEB liability of the employer, calculated using the discount rate of 7.00 percent, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Net OPEB Liability	\$ 2,798,350	\$ 1,727,649	\$ 817,242

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

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 7.50 percent, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Net OPEB Liability	\$ 772,953	\$ 1,727,649	\$ 2,844,885

City of Sturgis

Notes to the Financial Statements

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$59,827. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 269,106	\$ -
Difference between expected and actual experience	-	943,123
Changes in assumptions	-	43,643
Total	<u>\$ 269,106</u>	<u>\$ 986,766</u>

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

Year Ending September 30,	Amount
2020	\$ (321,116)
2021	(321,118)
2022	(130,792)
2023	55,366

Allocation of Net OPEB Liability and Related Deferred Items

At September 30, 2019, the City allocated its net OPEB liability and related deferrals as follows:

	Governmental Activities	Business-type Activities			Total
		Electric	Sanitary Sewer	Water	
Deferred Outflows of Resources	\$ 204,521	\$ 51,130	\$ 8,073	\$ 5,382	\$ 269,106
Net OPEB Liability	1,313,014	328,253	51,829	34,553	1,727,649
Deferred Inflows of Resources	749,942	187,486	29,603	19,735	986,766

NOTE 14 - CONTINGENT LIABILITIES

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

City of Sturgis

Notes to the Financial Statements

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

NOTE 15 - PURCHASED POWER AGREEMENT

The City has entered into an agreement as of May 24, 2006, with Indiana Michigan Power Company (American Electric Power) to purchase electric service on a cost-based formula rate. The contract period runs from July 1, 2006 through May 31, 2026 and includes various cancellation clauses for either party based on advance notification dates or specific circumstances arising. The City has exercised an option to terminate the AEP contract (Note 19). 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, 2019, the City incurred purchased power cost under this agreement of \$16,651,044 which is included in the electric fund as purchased power expense and includes an estimated liability of \$266,000 for future true-up cost charges.

NOTE 16 - TAX ABATEMENTS

The City received reduced property tax revenues during 2019 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements entered into by the City.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the City. The abatements amounted to \$91,735 in reduced City tax revenues for the year.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this Act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increment financing may be used as a tool for property redevelopment. The abatements amounted to \$47,210 in reduced City tax revenues for the year.

City of Sturgis

Notes to the Financial Statements

NOTE 17 - FUND BALANCES - GOVERNMENTAL FUNDS

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable			
Prepaid items	\$ 425	\$ 6,441	\$ 6,866
Inventory	-	32,878	32,878
Endowment	-	144,222	144,222
<i>Total nonspendable</i>	<u>425</u>	<u>183,541</u>	<u>183,966</u>
Restricted			
Streets	-	2,594,897	2,594,897
Cemetery trust	-	518,911	518,911
<i>Total restricted</i>	<u>-</u>	<u>3,113,808</u>	<u>3,113,808</u>
Committed			
Streets	-	1,875,965	1,875,965
Capital projects	-	2,055,613	2,055,613
Building department	-	160,849	160,849
Housing department	-	20,390	20,390
Cemetery	-	16,909	16,909
Drug enforcement	-	25,527	25,527
Recreation	-	21,988	21,988
Auditorium	-	3,407	3,407
Arts Council	-	35,746	35,746
Recreation center	-	62,430	62,430
Airport	-	44,487	44,487
<i>Total committed</i>	<u>-</u>	<u>4,323,311</u>	<u>4,323,311</u>
Assigned			
Endowment	-	35,270	35,270
Unassigned	<u>2,774,247</u>	<u>-</u>	<u>2,774,247</u>
<i>Total Fund Balance</i>	<u>\$ 2,774,672</u>	<u>\$ 7,655,930</u>	<u>\$ 10,430,602</u>

City of Sturgis

Notes to the Financial Statements

NOTE 18 - RESTATEMENT

In the past, the City had excluded endowments in a community foundation. As a result, the endowments fund was created and the resulting correction increased cash and investments, governmental fund balance, and governmental activities net position by \$181,524.

The following table shows the changes described above and includes the adjustments of fund balance and net position indicated above:

	<u>Governmental Funds</u>	<u>Governmental Activities</u>
Fund Balance/Net Position at September 30, 2018, as previously reported	\$ 8,855,775	\$ 26,181,921
Correction of excluded endowment fund	181,524	181,524
Fund Balance/Net Position at September 30, 2018, restated	<u>\$ 9,037,299</u>	<u>\$ 26,363,445</u>

NOTE 19 - SUBSEQUENT EVENT

The City, pursuant to a resolution adopted July 12, 2017, expanded to full membership in the Michigan Public Power Agency (the "MPPA") in order to provide additional power supply capacity to meet the needs of its customers. The City has cancelled its agreement with American Electric Power with an effective date of June 1, 2020. In 2020, the City will begin purchasing power from MPPA in combination with existing generation. With this change the City will gain access to the wholesale market providing the City with a less costly source for its power supply needs. In addition, the City has entered into an agreement to purchase solar power from Prism Power Partners. This initiative will allow the City to gain renewable energy credits to help meet State-mandated renewable energy percentages.

REQUIRED SUPPLEMENTARY INFORMATION

City of Sturgis
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the year Ended September 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 2,474,785	\$ 2,474,785	\$ 2,445,106	\$ (29,679)
Licenses and Permits	10,135	55,135	56,289	1,154
State Sources	1,675,085	2,317,955	2,388,238	70,283
Charges for Services	235,500	235,500	242,887	7,387
Fines and Forfeits	33,000	33,000	21,384	(11,616)
Investment Income	150,000	150,000	211,723	61,723
Contributions	30,000	30,000	7,750	(22,250)
Payments in Lieu of Taxes	2,627,820	2,627,820	2,631,917	4,097
Administrative Reimbursement	1,067,160	1,067,160	1,067,160	--
Rental Income	9,400	9,400	9,923	523
Other	153,150	153,150	160,547	7,397
Total Revenues	8,466,035	9,153,905	9,242,924	89,019
Expenditures				
Legislative	44,690	44,690	42,993	1,697
General Government	1,271,395	1,271,395	1,253,940	17,455
Public Safety	4,656,585	4,656,585	4,561,602	94,983
Public Works	439,465	439,465	442,021	(2,556)
Health and Welfare	2,000	2,000	1,000	1,000
Recreation and Culture	625,080	670,080	660,557	9,523
Community and Economic Development	212,185	212,185	178,798	33,387
Capital Outlay	154,000	239,185	132,506	106,679
Debt Service	19,900	19,900	18,910	990
Total Expenditures	7,425,300	7,555,485	7,292,327	263,158
Other Financing Uses				
Transfers Out	1,474,200	2,114,200	2,114,200	--
Total Expenditures and Other Financing Uses	8,899,500	9,669,685	9,406,527	263,158
Excess (Deficiency) of Revenues Over Expenditures and Other Uses				
Net Change in Fund Balance	(433,465)	(515,780)	(163,603)	352,177
<i>Fund Balance at Beginning of Period</i>	2,938,275	2,938,275	2,938,275	--
Fund Balance at End of Period	\$ 2,504,810	\$ 2,422,495	\$ 2,774,672	\$ 352,177

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

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

City of Sturgis
Required Supplementary Information
Schedule of Contributions
Last Six Fiscal Years

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

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of September 30, 2019.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percentage of pay, open
Remaining amortization period	15 years
Asset valuation method	Market value with 5-year smoothing; 20% corridor
Inflation	2.50%
Salary increases	3.25% to 13.25%
Investment rate of return	6.50%
Retirement Age	Age and experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Healthy Annuitant Mortality Table

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

	2019	2018
Total OPEB Liability		
Service Cost	\$ 79,871	\$ 72,300
Interest	725,959	757,030
Changes in assumptions	-	(87,285)
Differences between expected and actual experience	(808,155)	(674,013)
Benefit payments	(513,345)	(525,378)
<i>Net Change in total OPEB Liability</i>	(515,670)	(457,346)
<i>Total OPEB Liability - Beginning</i>	10,543,310	11,000,656
<i>Total OPEB Liability - Ending (a)</i>	\$ 10,027,640	\$ 10,543,310
Plan Fiduciary Net Position		
Contributions/benefit payments made from general operating funds	\$ 655,140	\$ 907,200
Net investment income	279,965	429,888
Benefit payments	(513,345)	(525,378)
Trust administrative expenses	(12,250)	(18,121)
<i>Net Change in Plan Fiduciary Net Position</i>	409,510	793,589
<i>Plan Fiduciary Net Position - Beginning</i>	7,890,481	7,096,892
<i>Plan Fiduciary Net Position - Ending (b)</i>	\$ 8,299,991	\$ 7,890,481
<i>Net OPEB Liability - Ending (a) - (b)</i>	\$ 1,727,649	\$ 2,652,829
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	82.8%	74.8%
Covered Payroll	\$ 3,549,913	\$ 3,748,674
Net OPEB Liability as a Percentage of Covered Payroll	48.7%	70.8%

* Built prospectively upon implementation of GASB 75

City of Sturgis
Required Supplementary Information
Schedule of Contributions - OPEB
Last Two Fiscal Years

	2019	2018
Actuarially Determined Contribution	\$ 654,338	\$ 906,796
Contributions in Relation to the Actuarially Determined Contribution	655,140	907,200
Contribution Deficiency (Excess)	\$ (802)	\$ (404)
 Covered Payroll	 \$ 3,549,913	 \$ 3,748,674
 Contributions as a Percentage of Covered Payroll	 18.5%	 24.2%

Notes

Valuation Date: September 30, 2019

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry Age Normal Level % of Salary
Amortization method	Level Dollar
Remaining amortization period	10 Years
Asset valuation method	Market Value
Inflation	2.50%
Salary increases	3.50%
Investment rate of return	7.00%
Retirement Age	Average - 47 years
Mortality	Based on RP-2014 tables

* *Built prospectively upon implementation of GASB 75*

Combining and Individual Fund Statements and Schedules

**City of Sturgis
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2019**

	Special Revenue					
	Major Streets	Local Streets	Municipal Street	Municipal Street/Sidewalk Improvement	Building Department	Housing Department
ASSETS						
Cash and Investments	\$ 935,962	\$ 894,769	\$ 2,561,657	\$ 956,152	\$ 164,095	\$ 22,246
Accounts Receivable	3,644	996	--	--	--	--
Taxes Receivable	--	--	--	111,200	--	--
Special Assessments Receivable	--	--	--	21,992	--	--
Inventory	--	--	--	--	--	--
Prepaid Items	--	--	--	--	--	--
Due from Other Governmental Units	77,159	28,279	--	--	--	--
Total Assets	\$ 1,016,765	\$ 924,044	\$ 2,561,657	\$ 1,089,344	\$ 164,095	\$ 22,246
LIABILITIES						
Accounts Payable	\$ 21,628	\$ 38,395	\$ 315,019	\$ 257,870	\$ 410	\$ 906
Accrued Expenses	6,391	5,828	--	--	2,836	--
Customer Deposits	--	--	--	--	--	950
Unearned Revenue	--	--	--	83,152	--	--
Total Liabilities	28,019	44,223	315,019	341,022	3,246	1,856
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	--	--	--	21,992	--	--
Total Liabilities and Deferred Inflows of Resources	28,019	44,223	315,019	363,014	3,246	1,856
FUND BALANCE						
Nonspendable	--	--	--	--	--	--
Restricted	988,746	879,821	--	726,330	--	--
Committed	--	--	1,875,965	--	160,849	20,390
Assigned	--	--	--	--	--	--
Unassigned	--	--	--	--	--	--
Total Fund Balance	988,746	879,821	1,875,965	726,330	160,849	20,390
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,016,765	\$ 924,044	\$ 2,561,657	\$ 1,089,344	\$ 164,095	\$ 22,246

**City of Sturgis
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2019**

	Special Revenue					
	Cemetery	Drug Enforcement	Recreation	Civic Auditorium	Sturgis Arts Council	Doyle Community Center
ASSETS						
Cash and Investments	\$ 27,297	\$ 25,527	\$ 27,876	\$ 59,867	\$ 29,994	\$ 125,519
Accounts Receivable	1,337	--	--	4,064	6,052	--
Taxes Receivable	--	--	--	--	--	--
Special Assessments Receivable	--	--	--	--	--	--
Inventory	--	--	--	15,639	--	--
Prepaid Items	--	--	786	2,842	--	--
Due from Other Governmental Units	--	--	--	--	--	--
Total Assets	\$ 28,634	\$ 25,527	\$ 28,662	\$ 82,412	\$ 36,046	\$ 125,519
LIABILITIES						
Accounts Payable	\$ 2,657	\$ --	\$ 1,819	\$ 51,522	\$ --	\$ 28,209
Accrued Expenses	9,068	--	4,069	7,605	--	7,519
Customer Deposits	--	--	--	1,397	--	--
Unearned Revenue	--	--	--	--	300	27,361
Total Liabilities	11,725	--	5,888	60,524	300	63,089
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	--	--	--	--	--	--
Total Liabilities and Deferred Inflows of Resources	11,725	--	5,888	60,524	300	63,089
FUND BALANCE						
Nonspendable	--	--	786	18,481	--	--
Restricted	--	--	--	--	--	--
Committed	16,909	25,527	21,988	3,407	35,746	62,430
Assigned	--	--	--	--	--	--
Unassigned	--	--	--	--	--	--
Total Fund Balance	16,909	25,527	22,774	21,888	35,746	62,430
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 28,634	\$ 25,527	\$ 28,662	\$ 82,412	\$ 36,046	\$ 125,519

**City of Sturgis
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2019**

	<u>Special Revenue</u>		<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Airport</u>	<u>Capital Projects</u>	<u>Cemetery Trust</u>	<u>Endowment Fund</u>	
ASSETS					
Cash and Investments	\$ 47,557	\$ 2,063,316	\$ 518,293	\$ 179,492	\$ 8,639,619
Accounts Receivable	4,556	--	618	--	21,267
Taxes Receivable	--	--	--	--	111,200
Special Assessments Receivable	--	--	--	--	21,992
Inventory	17,239	--	--	--	32,878
Prepaid Items	2,813	--	--	--	6,441
Due from Other Governmental Units	--	--	--	--	105,438
<i>Total Assets</i>	<u>\$ 72,165</u>	<u>\$ 2,063,316</u>	<u>\$ 518,911</u>	<u>\$ 179,492</u>	<u>\$ 8,938,835</u>
LIABILITIES					
Accounts Payable	\$ 6,523	\$ 7,703	\$ --	\$ --	\$ 1,103,334
Accrued Expenses	1,103	--	--	--	44,419
Customer Deposits	--	--	--	--	2,347
Unearned Revenue	--	--	--	--	110,813
<i>Total Liabilities</i>	<u>7,626</u>	<u>7,703</u>	<u>--</u>	<u>--</u>	<u>1,260,913</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	--	--	--	--	21,992
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>7,626</u>	<u>7,703</u>	<u>--</u>	<u>--</u>	<u>1,282,905</u>
FUND BALANCE					
Nonspendable	20,052	--	--	144,222	183,541
Restricted	--	--	518,911	--	3,113,808
Committed	44,487	2,055,613	--	--	4,323,311
Assigned	--	--	--	35,270	35,270
Unassigned	--	--	--	--	--
<i>Total Fund Balance</i>	<u>64,539</u>	<u>2,055,613</u>	<u>518,911</u>	<u>179,492</u>	<u>7,655,930</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	<u>\$ 72,165</u>	<u>\$ 2,063,316</u>	<u>\$ 518,911</u>	<u>\$ 179,492</u>	<u>\$ 8,938,835</u>

City of Sturgis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended September 30, 2019

	Special Revenue					
	Major Streets	Local Streets	Municipal Street	Municipal Street/Sidewalk Improvement	Building Department	Housing Department
Revenues						
Property Taxes	\$ --	\$ 221,488	\$ --	\$ 664,119	\$ --	\$ --
Licenses and Permits	--	--	--	--	92,299	--
State Sources	974,231	615,953	--	189,619	--	--
Charges for Services	--	--	--	--	--	--
Contributions	--	--	--	--	--	--
Rental Income	--	--	--	--	--	--
Other	3,273	8,403	--	5,614	--	--
Investment Income (Loss)	14,445	14,886	40,067	--	1,168	185
Total Revenues	991,949	860,730	40,067	859,352	93,467	185
Expenditures						
General Government	--	--	--	--	--	--
Public Safety	--	--	--	--	118,979	--
Public Works	723,101	586,800	136,855	273,212	--	--
Recreation and Culture	--	--	--	--	--	--
Community and Economic Development	--	--	--	--	--	99,212
Capital Outlay	--	--	370,673	--	--	--
Debt Service - Principal	--	--	--	--	--	--
Debt Service - Interest	--	--	--	--	--	--
Total Expenditures	723,101	586,800	507,528	273,212	118,979	99,212
Excess of Revenues Over (Under) Expenditures	268,848	273,930	(467,461)	586,140	(25,512)	(99,027)
Other Financing Sources (Uses)						
Transfers In	--	--	--	--	48,000	90,000
Transfers Out	--	--	--	--	--	--
Net Other Financing Sources (Uses)	--	--	--	--	48,000	90,000
Net Change in Fund Balance	268,848	273,930	(467,461)	586,140	22,488	(9,027)
<i>Fund Balance at Beginning of Period</i>	719,898	605,891	2,343,426	140,190	138,361	29,417
Fund Balance at End of Period	\$ 988,746	\$ 879,821	\$ 1,875,965	\$ 726,330	\$ 160,849	\$ 20,390

City of Sturgis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended September 30, 2019

	Special Revenue					
	Cemetery	Drug Enforcement	Recreation	Civic Auditorium	Sturgis Arts Council	Doyle Community Center
Revenues						
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses and Permits	--	--	--	--	--	--
State Sources	--	--	--	--	--	--
Charges for Services	83,713	--	77,431	229,561	84,052	444,084
Contributions	--	--	18,015	20,796	17,044	24,077
Rental Income	1,584	--	--	--	--	55,719
Other	55	5,072	889	39,071	--	15,956
Investment Income (Loss)	211	189	369	--	253	894
Total Revenues	85,563	5,261	96,704	289,428	101,349	540,730
Expenditures						
General Government	374,408	--	--	--	--	--
Public Safety	--	9,938	--	--	--	--
Public Works	--	--	--	--	--	--
Recreation and Culture	--	--	219,675	574,564	103,506	457,048
Community and Economic Development	--	--	--	--	--	--
Capital Outlay	34,544	--	--	37,318	--	100,500
Debt Service - Principal	--	--	--	41,362	--	22,232
Debt Service - Interest	--	--	--	19,018	--	11,368
Total Expenditures	408,952	9,938	219,675	672,262	103,506	591,148
Excess of Revenues Over (Under) Expenditures	(323,389)	(4,677)	(122,971)	(382,834)	(2,157)	(50,418)
Other Financing Sources (Uses)						
Transfers In	307,211	12,000	108,000	362,852	--	35,040
Transfers Out	--	--	--	--	--	--
Net Other Financing Sources (Uses)	307,211	12,000	108,000	362,852	--	35,040
Net Change in Fund Balance	(16,178)	7,323	(14,971)	(19,982)	(2,157)	(15,378)
<i>Fund Balance at Beginning of Period</i>	33,087	18,204	37,745	41,870	37,903	77,808
Fund Balance at End of Period	\$ 16,909	\$ 25,527	\$ 22,774	\$ 21,888	\$ 35,746	\$ 62,430

City of Sturgis
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended September 30, 2019

	Special Revenue		Permanent		Total Nonmajor Governmental Funds
	Airport	Capital Projects	Cemetery Trust	Endowment Fund	
Revenues					
Property Taxes	\$ --	\$ --	\$ --	\$ --	\$ 885,607
Licenses and Permits	--	--	--	--	92,299
State Sources	--	--	--	--	1,779,803
Charges for Services	100,033	--	5,108	--	1,023,982
Contributions	--	75,876	--	10,031	165,839
Rental Income	42,875	--	--	--	100,178
Other	2,426	--	--	--	80,759
Investment Income (Loss)	563	19,318	13,472	4,201	110,221
Total Revenues	145,897	95,194	18,580	14,232	4,238,688
Expenditures					
General Government	--	--	--	1,753	376,161
Public Safety	--	--	--	--	128,917
Public Works	230,290	--	--	--	1,690,460
Recreation and Culture	--	--	--	--	1,354,793
Community and Economic Development	--	--	--	14,511	113,723
Capital Outlay	31,797	89,678	--	--	924,308
Debt Service - Principal	--	--	--	--	63,594
Debt Service - Interest	--	--	--	--	30,386
Total Expenditures	262,087	89,678	--	16,264	4,682,342
Excess of Revenues Over (Under) Expenditures	(116,190)	5,516	18,580	(2,032)	(443,654)
Other Financing Sources (Uses)					
Transfers In	100,020	1,126,020	--	--	2,189,143
Transfers Out	--	(57,352)	(131,231)	--	(188,583)
Net Other Financing Sources (Uses)	100,020	1,068,668	(131,231)	--	2,000,560
Net Change in Fund Balance	(16,170)	1,074,184	(112,651)	(2,032)	1,556,906
Fund Balance at Beginning of Period	80,709	981,429	631,562	181,524	6,099,024
Fund Balance at End of Period	\$ 64,539	\$ 2,055,613	\$ 518,911	\$ 179,492	\$ 7,655,930

City of Sturgis
Combining Statement of Net Position
Internal Service Funds
September 30, 2019

	Internal Service			Total Internal Service Funds
	Workers' Compensation Insurance	Motor Vehicle and Equipment	Employee Benefit	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 186,766	\$ 1,651,988	\$ 112,693	\$ 1,951,447
Accounts Receivable	--	92	18,143	18,235
Inventory	--	2,332	--	2,332
Prepaid Items	119,568	--	143,914	263,482
Total Current Assets	306,334	1,654,412	274,750	2,235,496
<i>Noncurrent Assets</i>				
Capital Assets being Depreciated	--	1,358,738	--	1,358,738
Total Assets	306,334	3,013,150	274,750	3,594,234
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	23,643	34,090	144,692	202,425
Accrued Expenses	--	2,167	50,000	52,167
Current Portion of Long-term Debt	--	67,310	--	67,310
Total Current Liabilities	23,643	103,567	194,692	321,902
<i>Noncurrent Liabilities</i>				
Long-term Debt	--	473,236	--	473,236
Total Liabilities	23,643	576,803	194,692	795,138
NET POSITION				
Net Investment in Capital Assets	--	818,192	--	818,192
<i>Unrestricted</i>	282,691	1,618,155	80,058	1,980,904
Total Net Position	\$ 282,691	\$ 2,436,347	\$ 80,058	\$ 2,799,096

City of Sturgis
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the year Ended September 30, 2019

	Internal Service			Total Internal Service Funds
	Workers' Compensation Insurance	Motor Vehicle and Equipment	Employee Benefit	
Operating Revenues				
Charges for Services	\$ 151,235	\$ 1,121,684	\$ 2,806,312	\$ 4,079,231
Total Operating Revenues	<u>151,235</u>	<u>1,121,684</u>	<u>2,806,312</u>	<u>4,079,231</u>
Operating Expenses				
Material, Maintenance, and Other	--	394,812	--	394,812
General and Administrative	1,199	102,338	35,135	138,672
Depreciation	--	557,203	--	557,203
Insurance Premiums and Claims	140,517	46,226	2,797,646	2,984,389
Total Operating Expenses	<u>141,716</u>	<u>1,100,579</u>	<u>2,832,781</u>	<u>4,075,076</u>
Operating Income (Loss)	<u>9,519</u>	<u>21,105</u>	<u>(26,469)</u>	<u>4,155</u>
Non-Operating Revenues (Expenses)				
Investment Income (Loss)	1,447	25,488	3,772	30,707
Gain (Loss) on Sale of Assets	--	67,400	--	67,400
Interest Expense	--	(11,897)	--	(11,897)
Net Non-Operating Revenues (Expenses)	<u>1,447</u>	<u>80,991</u>	<u>3,772</u>	<u>86,210</u>
Change In Net Position	10,966	102,096	(22,697)	90,365
<i>Net Position at Beginning of Period</i>	271,725	2,334,251	102,755	2,708,731
Net Position at End of Period	<u>\$ 282,691</u>	<u>\$ 2,436,347</u>	<u>\$ 80,058</u>	<u>\$ 2,799,096</u>

City of Sturgis
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2019

	Internal Service			Total Internal Service Funds
	Workers' Compensation Insurance	Motor Vehicle and Equipment	Employee Benefit	
Cash Flows from Operating Activities				
Cash Received from Interfund Services	\$ 151,235	\$ 1,121,684	\$ 2,823,169	\$ 4,096,088
Cash Payments for Goods and Services	(161,507)	(470,293)	(3,021,181)	(3,652,981)
Cash Payments to Employees	--	(70,494)	--	(70,494)
Net Cash Provided (Used) by Operating Activities	<u>(10,272)</u>	<u>580,897</u>	<u>(198,012)</u>	<u>372,613</u>
Cash Flows from Capital and Related Financing Activities				
Change in Capital Assets	--	(369,817)	--	(369,817)
Principal and Interest Paid on Long-term Debt	--	(74,708)	--	(74,708)
Net Cash Used by Capital and Related Financing Activities	<u>--</u>	<u>(444,525)</u>	<u>--</u>	<u>(444,525)</u>
Cash Flows from Investing Activities				
Investment Income	1,447	25,488	3,772	30,707
Net Cash Provided by from Investing Activities	<u>1,447</u>	<u>25,488</u>	<u>3,772</u>	<u>30,707</u>
Net Increase (Decrease) in Cash and Investments	(8,825)	161,860	(194,240)	(41,205)
<i>Cash and Investments - Beginning of Year</i>	195,591	1,490,128	306,933	1,992,652
Cash and Investments - End of Year	<u>\$ 186,766</u>	<u>\$ 1,651,988</u>	<u>\$ 112,693</u>	<u>\$ 1,951,447</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	9,519	21,105	(26,469)	4,155
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Depreciation Expense	--	557,203	--	557,203
Changes in Assets and Liabilities				
Accounts Receivable	--	--	16,857	16,857
Inventory	--	256	--	256
Prepaid Items	(22,550)	--	48,787	26,237
Accounts Payable	2,759	2,702	(12,687)	(7,226)
Accrued Expenses	--	(369)	(224,500)	(224,869)
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,272)</u>	<u>\$ 580,897</u>	<u>\$ (198,012)</u>	<u>\$ 372,613</u>

City of Sturgis
Brownfield Redevelopment Authority Balance Sheet and Statement of Net Position
September 30, 2019

	Brownfield Redevelopment Authority	Adjustments	Statement of Net Position
ASSETS			
Cash and Investments	\$ 74,045	\$ --	\$ 74,045
Accounts Receivable	68,318	(68,318) [1]	--
Total Assets	\$ 142,363	\$ --	\$ 74,045
LIABILITIES			
<i>Current Liabilities</i>			
Accrued Interest	\$ --	\$ 125,868	\$ 125,868
Current Portion of Long-term Debt	--	21,975 [2]	21,975
Total Current Liabilities	--	147,843	147,843
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	1,745,033 [2]	1,745,033
Total Liabilities	--	1,892,876	1,892,876
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	68,318	(68,318) [1]	--
FUND BALANCE			
<i>Restricted for:</i>			
Community and Economic Development	74,045	(74,045)	--
Total Fund Balance	74,045	(74,045)	--
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 142,363	\$ 1,750,513	\$ 1,892,876
NET POSITION			
<i>Restricted for:</i>			
Community and Economic Development		\$ (1,818,831)	\$ (1,818,831)
Total Net Position		\$ (1,818,831)	\$ (1,818,831)

[1] Certain assets are not available to pay current expenditures and therefore are not reported in the funds.

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

City of Sturgis
Brownfield Redevelopment Authority Statement of Revenues, Expenditures, and
Changes in Fund Balance and Statement of Activities
For the Year Ended September 30, 2019

	Brownfield Redevelopment Authority	Adjustments	Statement of Activities
Revenues			
Property Taxes	\$ 258,220	\$ --	\$ 258,220
Total Revenues	258,220	--	258,220
Expenditures			
Community and Economic Development	141,576	--	141,576
Debt Service - Principal	79,154	(79,154) [1]	--
Debt Service - Interest	2,192	41,956 [2]	44,148
Total Expenditures	222,922	(37,198)	185,724
Excess of Revenues Over (Under) Expenditures	35,298	37,198	72,496
Net Change in Fund Balance / Net Position	35,298	37,198	72,496
<i>Fund Balance / Net Position at Beginning of Period</i>	38,747	(1,930,074)	(1,891,327)
Fund Balance / Net Position at End of Period	\$ 74,045	\$ (1,892,876)	\$ (1,818,831)

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

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

City of Sturgis
L DFA Balance Sheet and Statement of Net Position
September 30, 2019

	L DFA	Adjustments	Statement of Net Position
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 63,629	\$ --	\$ 63,629
Taxes Receivable	4,504	--	4,504
Total Current Assets	68,133	--	68,133
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated	--	68,306 [1]	68,306
Total Assets	\$ 68,133	\$ 68,306	\$ 136,439
LIABILITIES			
<i>Current Liabilities</i>			
Total Liabilities	--	--	--
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	4,504	--	4,504
FUND BALANCE			
<i>Restricted for:</i>			
Community and Economic Development	63,629	(63,629)	--
Total Fund Balance	63,629	(63,629)	--
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 68,133	\$ (63,629)	\$ 4,504
NET POSITION			
Net Investment in Capital Assets		\$ 68,306	\$ 68,306
<i>Restricted for:</i>			
Community and Economic Development		63,629	63,629
Total Net Position		\$ 131,935	\$ 131,935

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

City of Sturgis
LDFFA Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities
For the Year Ended September 30, 2019

	<u>LDFFA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property Taxes	\$ 48,941	\$ --	\$ 48,941
Investment Income	680	--	680
<i>Total Revenues</i>	<u>49,621</u>	<u>--</u>	<u>49,621</u>
Expenditures			
Community and Economic Development	68,335	(68,306) [1]	29
<i>Total Expenditures</i>	<u>68,335</u>	<u>(68,306)</u>	<u>29</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(18,714)</u>	<u>68,306</u>	<u>49,592</u>
<i>Net Change in Fund Balance / Net Position</i>	<u>(18,714)</u>	<u>68,306</u>	<u>49,592</u>
<i>Fund Balance / Net Position at Beginning of Period</i>	82,343	--	82,343
<i>Fund Balance / Net Position at End of Period</i>	<u>\$ 63,629</u>	<u>\$ 68,306</u>	<u>\$ 131,935</u>

[1] In the funds capital outlay is recorded as an expenditure in the year paid for, while, in the statement of activities the asset is expensed over its useful life. This amount represents capital outlay expenditure for the year.

City of Sturgis
Building Authority Balance Sheet and Statement of Net Position
September 30, 2019

	Building Authority	Adjustments	Statement of Net Position
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 2,569	\$ --	\$ 2,569
Lease Receivable	--	350,000 [1]	350,000
Total Current Assets	2,569	350,000	352,569
<i>Noncurrent Assets</i>			
Long-term Lease Receivable	--	7,510,000 [1]	7,510,000
Total Assets	\$ 2,569	\$ 7,860,000	\$ 7,862,569
LIABILITIES			
<i>Current Liabilities</i>			
Current Portion of Long-term Debt	\$ --	\$ 350,000 [2]	\$ 350,000
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	7,510,000 [2]	7,510,000
Total Liabilities	--	7,860,000	7,860,000
FUND BALANCE			
<i>Restricted for:</i>			
Community and Economic Development	2,569	(2,569)	--
Total Fund Balance	2,569	(2,569)	--
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,569	\$ 7,857,431	\$ 7,860,000
NET POSITION			
<i>Restricted for:</i>			
Community and Economic Development		\$ 2,569	\$ 2,569
Total Net Position		\$ 2,569	\$ 2,569

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

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

City of Sturgis
Building Authority Statement of Revenues, Expenditures, and
Changes in Fund Balance and Statement of Activities
For the Year Ended September 30, 2019

	<u>Building Authority</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Lease Income	\$ 649,163	\$ (340,000) [1]	\$ 309,163
Total Revenues	<u>649,163</u>	<u>(340,000)</u>	<u>309,163</u>
Expenditures			
Debt Service - Principal	340,000	(340,000) [2]	--
Debt Service - Interest	308,913	--	308,913
Total Expenditures	<u>648,913</u>	<u>(340,000)</u>	<u>308,913</u>
Excess of Revenues Over (Under) Expenditures	<u>250</u>	<u>--</u>	<u>250</u>
Net Change in Fund Balance / Net Position	<u>250</u>	<u>--</u>	<u>250</u>
<i>Fund Balance / Net Position at Beginning of Period</i>	2,319	--	2,319
Fund Balance / Net Position at End of Period	<u>\$ 2,569</u>	<u>\$ --</u>	<u>\$ 2,569</u>

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

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

March 25, 2020

To the City Commission
City of Sturgis, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis for the year ended September 30, 2019. Our report includes a reference to other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 6, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension and other post-employment plans are based on historical trends and industry standards.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, OPEB and pension schedules, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 84 - Fiduciary Activities

This new pronouncement will be effective for reporting periods beginning after December 15, 2018. This statement provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

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

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

GASB Statement No. 87 – Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources

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

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

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” On September 18, 2019, the State issued a memo that sets an implementation date for fiscal years ending on September 20, 2021 and thereafter. In the coming months, the State has committed to releasing various tools to help local units with implementation. On October 31, 2019, the FAQs will be released along with clarification on what accounts should be used when implementing GASB 84. A significant revision will be issued on December 31, 2019 that will incorporate feedback that the Treasury has received. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. In addition, the FAQ will be a live document that will be updated as questions arise. Local units can sign up for alerts at this link:

https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1

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

https://www.michigan.gov/treasury/0,4679,7-121-1751_2194-171570--,00.html

The City will need to implement the new chart of accounts on October 1, 2021.

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

Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned below the closing phrase "Very truly yours,".

Gabridge & Company, PLC
Sturgis, Michigan