

CITY OF STURGIS, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Sturgis, Michigan, as of and for the year ended September 30, 2017, 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 City of Sturgis as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sturgis' basic financial statements. The additional supplementary information, as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

March 30, 2018

Norman E. Paulson, P.C.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$5,562,197 during the fiscal year ended September 30, 2017, which represents a 7.2 percent increase in net position from \$76,989,522 at the beginning of the year to \$82,551,719 at the end of the year. Included in the City's total net position are the Electric Utility Fund. The Electric Utility's net position increased by \$1,460,663 to \$38,539,245.

The City's Governmental Funds reflected a total fund balance at September 30, 2017 of \$8,179,356, which was a decrease of \$390,864 from the prior year end. This decrease was primarily the result of budgeted municipal street improvement projects.

The City's General Fund reflected a total fund balance at September 30, 2017 of \$3,167,228, which was a decrease of \$48,667 from the prior year end.

The City's Municipal Street Fund reflected a total fund balance at September 30, 2017 of \$2,400,730 which was an increase of \$621,257 from the prior year end and included an operating transfer from the Capital Projects Fund of \$1,000,000.

The City's Municipal Street/Sidewalk Improvement Fund reflected a total fund balance at September 30, 2017 of \$42,784 which was a decrease of \$345,175 from the prior year end and included voter approved property tax revenue of \$665,606.

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

State revenue sharing amounted to \$1,025,144 which was a \$48,233 increase. This is down by \$282,817 or 22% from a 2001 high of \$1,307,961.

The Net Position of the Pension Trust Fund increased by \$2,158,670 or 6% of beginning net position of \$35,555,349. This was the result of a net appreciation in the fair value of investments of \$2,588,279.

The Net Position of the Other Post Employment Benefit Trust Fund increased by \$1,876,225 or 36% of beginning net position of \$5,220,667. This was the result of employer contributions of \$1,628,100 and a net appreciation in the fair value of investments of \$739,141.

The total Governmental Fund expenditures for the year ended September 30, 2017, amounted to \$13,603,396, of which \$4,458,287 (33 percent) was for public safety, \$3,195,775 (23 percent) was for public works, \$1,672,710 (12 percent) was for recreation and cultural, \$154,770 (1 percent) was for community and economic development, \$2,306,667 (17 percent) was for capital outlay, and \$1,619,796 (12 percent) was for general government.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

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

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

The City as a Whole

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2017	2016	2017	2016
Assets	\$ 11,884	\$ 12,324	\$ 70,885	\$ 70,009
Liabilities	3,705	3,754	14,793	15,691
Fund Equity				
Invested in capital assets, net of related debt	-	-	36,092	33,537
Retained Earnings				
Restricted	-	-	171	1,017
Unreserved	-	-	19,829	19,764
Fund Balances				
Reserved	1,769	1,877	-	-
Unreserved	6,410	6,693	-	-
Total Fund Equity	\$ 8,179	\$ 8,570	\$ 56,092	\$ 54,318

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity decreased by 4.6 percent or \$390,864 from a year ago. In contrast the prior years governmental fund equity decreased by 2.4 percent or \$210,051.

The City's enterprise fund equity increased by 3.3 percent or \$1,773,724 from a year ago. In contrast the prior years enterprise fund equity increased by 2.6 percent or \$1,394,065.

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 14,519	\$ 15,596	\$ 24,840	\$ 24,790
Capital assets	<u>20,309</u>	<u>17,088</u>	<u>46,045</u>	<u>45,219</u>
Total assets	34,828	32,684	70,885	70,009
Long-term debt outstanding	1,290	1,411	9,953	11,682
Other liabilities	<u>7,078</u>	<u>8,602</u>	<u>4,840</u>	<u>4,009</u>
Total liabilities	8,368	10,013	14,793	15,691
Net position				
Invested in capital assets, net of related debt	19,019	15,676	36,092	33,537
Restricted	1,489	1,815	171	1,017
Unrestricted	<u>5,952</u>	<u>5,181</u>	<u>19,829</u>	<u>19,764</u>
Total net position	<u>\$ 26,460</u>	<u>\$ 22,672</u>	<u>\$ 56,092</u>	<u>\$ 54,318</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2017	2016	2017	2016
Revenue				
Property taxes	\$ 3,185	\$ 3,590	\$ -	\$ -
In lieu of taxes	2,508	2,544	-	-
Special assessments	-	-	-	-
Licenses and permits	134	215	-	-
Grants	1,738	977	162	904
State shared revenues	2,743	1,792	-	-
Charges for services	1,161	1,189	31,126	30,644
Fines and forfeits	43	24	-	-
Investment income	201	193	(13)	45
Administrative reim.	951	951	-	-
Other	648	346	860	829
Debt proceeds	-	-	-	-
Transfers	(100)	(240)	100	240
Total revenue	13,212	11,583	32,235	32,662
Program expenses				
General government	1,662	1,633	-	-
Public safety	4,458	4,191	-	-
Public works	3,196	2,861	-	-
Recreation and culture	1,673	1,590	-	-
Community development	155	743	-	-
Health and welfare	57	64	-	-
Capital outlay	2,307	614	-	-
Debt service	96	97	-	-
Electric system	-	-	21,503	21,764
Sewer system	-	-	1,946	2,487
Water system	-	-	901	845
Other	-	-	-	-
In lieu of taxes	-	-	2,508	2,536
Depreciation	-	-	3,284	3,261
Interest expense	-	-	319	375
Total expenses	13,603	11,793	30,461	31,268
Excess (Deficiency)	\$ (391)	\$ (210)	\$ 1,774	\$ 1,394

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues				
Program revenues				
Charges for services	\$ 2,284	\$ 2,205	\$ 31,399	\$ 31,010
Operating grants and contributions	1,511	1,692	162	925
Capital grants and contributions	3,042	619	-	-
General revenues				
Property taxes	3,185	3,591	-	-
State shared revenues	1,582	1,002	-	-
Unrestricted investment earnings	211	200	(13)	45
Miscellaneous	437	295	587	443
Payments in lieu of taxes	2,508	2,544	-	-
Transfers	<u>(100)</u>	<u>(240)</u>	<u>100</u>	<u>240</u>
Total revenues	14,660	11,909	32,235	32,662
Expenses				
General government	2,252	2,468	-	-
Public safety	4,603	4,029	-	-
Public works	2,235	2,264	-	-
Recreation and cultural	1,521	1,786	-	-
Community development	155	743	-	-
Unallocated	57	64	-	-
Interest on long-term debt	49	49	-	-
Electric system	-	-	25,540	25,874
Sewer system	-	-	3,532	4,068
Water system	-	-	1,389	1,326
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>10,872</u>	<u>11,403</u>	<u>30,461</u>	<u>31,268</u>
Change in net position	<u>\$ 3,788</u>	<u>\$ 505</u>	<u>\$ 1,774</u>	<u>\$ 1,394</u>

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

For the year ended September 30, 2017, the net position of governmental activities increased by \$3,788,473 or 16.7 percent of beginning net position. This increase included \$1,276,900 of contributed capital for street reconstruction. The majority of the remaining increase will be used for future street projects.

Business-Type Activities

For the year ended September 30, 2017, the net position of business-type activities increased by \$1,773,724 or 3.3 percent of beginning net position. This increase was comprised of the following by specific activity:

	Increase (Decrease)	
	<u>2017</u>	<u>2016</u>
Electric system	\$ 1,460,663	\$ 604,834
Sewer system	93,183	475,028
Water system	219,878	314,203
Other	<u>-</u>	<u>-</u>
Total	<u>\$ 1,773,724</u>	<u>\$ 1,394,065</u>

The Electric system's increase in net position of \$1,460,663 is up from the prior year increase of \$604,834 as the prior year was lower than expected due to prior year true-up cost charges from the purchased power supplier.

The Sewer system's increase in net position of \$93,183 is down from the prior year increase of \$475,028 primarily due to an increase in the allocation of employee/retiree pension and health care benefits. The City continues to increase utility rates in an attempt to improve the Sewer system's net position.

The Water system's increase in net assets of \$219,878 is similar to the prior year increase of \$314,203. The City continues to increase utility rates in an attempt to improve the Water system's net position.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Component Units

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

The City's Funds

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2017 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Municipal Street/Sidewalk Improvement Fund, Capital Project Fund, and Public Improvement Grant Fund.

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

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

The Public Improvement Grant Fund is funded by Community Development Block Grant revenues for downtown building reconstruction projects and for local manufacture employee job training.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted a decrease of \$530,805 in the original budget and a decrease of \$480,805 in the amended budget. Actual operating results ended up as a decrease in fund balance of \$48,667.

The original budget was amended for:

Increase in total revenues	\$ 180,000
Decrease in general government expenditures	35,000
Decrease in public safety expenditures	149,000
Increase in recreation and cultural expenditures	20,000
Increase in capital outlay expenditures	270,000
Increase in operating transfers out	24,000

Actual revenues ended the year \$62,364 over the amended budget or 0.8 percent.

Actual expenditures ended the year \$369,774 under the amended budget or 5.0 percent.

There were no significant budget-to-actual differences.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

During the year ended September 30, 2017, the total capital assets of the City increased by \$9,545,000. Additional detail relating to the asset additions follows:

The Electric Utility System capital assets increased by \$1,520,000, which was funded internally.

The Sewer Utility System capital assets increased by \$1,277,000, which was funded internally.

The Water Utility System capital assets increased by \$1,314,000, which was funded by an internal loan from the Electric Fund of \$770,000 and the balance was funded internally.

The Motor Vehicle and Equipment Fund capital assets increased by \$326,000 which was financed internally.

Governmental capital assets increased in total by \$5,108,000. \$2,682,000 was for street reconstruction which was \$1,277,000 funded by the Brownfield Redevelopment Authority and the balance funded internally. \$2,199,000 was for land improvements which was \$1,515,000 funded by a County grant and the balance funded internally. \$195,000 was for Doyle Community Center building improvement and expansion which was funded internally. \$32,000 was for police and fire equipment which was funded internally.

During the year ended September 30, 2017, the total debt obligations of the City decreased by principal payments of \$1,850,012. Total debt obligations at September 30, 2017 amounted to \$11,243,469.

At September 30, 2017, the City is contingently liable for component unit debt obligations totaling \$8,866,820.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Sturgis is approximately \$21,100,000 which is significantly in excess of the City's outstanding general obligation debt.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

During the ensuing fiscal year, the City will be investing in several capital projects. The first project, funded primarily from a St. Joseph County Grant, will be to complete the new softball complex, currently under construction. Other major infrastructure projects include park and playground upgrades, street resurfacing and repairs, auditorium stage lighting, new court and walking track surface in the recreational center, sewer and water main replacements, construction of a rural transmission line, substation and various distribution improvements, SCADA upgrades across all utilities, and installation of a cemetery fence.

The City Commission has adopted a conservative budget for 2017-2018. This includes a decrease in fund balance for all governmental funds of \$602,435 or 8.80 percent of total beginning fund balances 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 an increase in property tax revenue of approximately 3.8 percent due to new construction. 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 46 percent residential, 19 percent industrial and 19 percent commercial, and 15 percent 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 three percent due to increased total revenue in 2016. Investment earnings are expected to remain low due to anticipated interest rates of return on fixed income investments.

The 2017-2018 budget includes maintaining total employee costs near current levels. This has been accomplished by evaluating vacant positions, investigating options to decrease benefit costs, implementing cost sharing methods, and searching for operational efficiencies with minimal impacts to the level of customer service. The City continues to address unfunded liabilities through changes in plan design, eligibility and increased pre-funding.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City's charter, adjusted for Headlee rollback, allows for the assessment of 11.8894 mils on the taxable value of each property. Since 2007, the City levied an operating millage of 10.0285 mils, which compares favorably to other like cities in southwest Michigan and is the lowest levied by the City since 1967. For 2018, the inflation rate multiplier which is applied to taxable values is 2.1 percent compared to 0.9 percent in 2017. Decreases in tax revenue are anticipated in 2017 due to elimination of personal property taxes.

Improving City streets remains a high priority for the Commission and a focus of the Sturgis 2022 initiative. In May of 2013, the City voters approved a three mil dedicated street millage to provide for ten years of funding for street and sidewalk improvements. In addition, as a result of additional State Restricted revenue, the 2017-2018 budget projects that Major and Local Streets Act 51 funding will have increases of ten percent.

In an effort to maintain financial sustainability in the Electric, Water and Sewer Funds, the City adopted rate adjustments for the next year. Using a cost of service model, rates are designed to meet financial targets for cash balance, adjusted operating income and debt coverage. Prior rate increases have been partially offset by decreasing utility consumption. The rates in the Electric Fund are designed to increase revenue 1.9 percent. The rates in the Water and Wastewater funds are designed to increase revenue two percent. Actual revenue generated from utility consumption will be evaluated each year to determine if the financial goals are being met.

Contacting the City's Management

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STURGIS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business</u>	<u>Total</u>	<u>Component</u>
	<u>Activities</u>	<u>Type</u>		<u>Units</u>
		<u>Activities</u>		
ASSETS				
Cash and investments	\$ 11,845,448	\$ 16,350,027	\$ 28,195,475	\$ 133,420
Receivables, net	1,018,466	3,930,264	4,990,686	405,685
Receivables, long-term portion	-	1,879,050	1,837,094	8,200,000
Internal balances	-	-	-	-
Inventories, prepaid items and other assets	325,490	1,269,221	1,594,711	2,550
Restricted assets	624,521	171,285	795,806	-
Net pension asset	264,825	176,548	441,373	-
Capital assets - net	<u>20,309,224</u>	<u>46,045,177</u>	<u>66,354,401</u>	<u>192,018</u>
Total assets	<u>34,387,974</u>	<u>69,821,572</u>	<u>104,209,546</u>	<u>8,933,673</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	<u>440,145</u>	<u>293,428</u>	<u>733,573</u>	<u>-</u>
LIABILITIES				
Accounts payable	1,651,840	2,306,471	3,958,311	71,131
Accrued and other liabilities	222,913	615,327	838,240	41,956
Unearned revenue	59,554	-	59,554	-
Debt obligations:				
Due within one year	123,631	757,534	881,165	371,678
Due in more than one year	1,166,427	9,195,877	10,362,304	10,195,142
Compensated absences	568,038	231,000	799,038	-
Other postemployment benefits	<u>2,358,540</u>	<u>917,210</u>	<u>3,275,750</u>	<u>-</u>
Total liabilities	<u>6,150,943</u>	<u>14,023,419</u>	<u>20,174,362</u>	<u>10,679,907</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>2,217,038</u>	<u>-</u>	<u>2,217,038</u>	<u>35,522</u>
NET POSITION				
Invested in capital assets, net of related debt	19,019,166	36,091,764	55,110,930	75,152
Restricted:				
Debt service	-	171,285	171,285	-
Streets	864,311	-	864,311	-
Cemetery trust	624,521	-	624,521	-
Other purposes	-	-	-	-
Unrestricted (deficit)	<u>5,952,140</u>	<u>19,828,532</u>	<u>25,780,672</u>	<u>(1,856,908)</u>
Total net position (deficit)	<u>\$ 26,460,138</u>	<u>\$ 56,091,581</u>	<u>\$ 82,551,719</u>	<u>\$ (1,781,756)</u>

See accompanying notes to the financial statements

CITY OF STURGIS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 2,251,356	\$ 1,026,786	\$ -	\$ -
Public safety	4,602,882	251,011	39,605	-
Public works	2,235,304	200,983	1,158,329	1,376,900
Recreation and cultural	1,521,090	805,473	226,418	1,665,120
Community/economic development	154,770	100	87,100	-
Unallocated	57,407	-	-	-
Interest on long-term debt	48,905	-	-	-
Total governmental activities	10,871,714	2,284,353	1,511,452	3,042,020
Business-type activities:				
Electric	25,539,694	26,385,711	-	-
Sanitary sewer	3,531,652	3,416,083	161,587	-
Water	1,389,613	1,597,165	-	-
Total business-type activities	30,460,959	31,398,959	161,587	-
Total primary government	\$ 41,332,673	\$ 33,683,312	\$ 1,673,039	\$ 3,042,020
Component units	\$ 652,208	\$ 342,174	\$ 33,334	\$ -

General revenues:
 Property taxes
 State unrestricted sources
 Unrestricted investment earnings (losses)
 Miscellaneous
 Payments in lieu of taxes
 Transfers - internal

Total general revenues and transfers

CHANGE IN NET POSITION

NET POSITION – BEGINNING OF YEAR

NET POSITION – END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (1,224,570)	\$ -	\$ (1,224,570)	\$ -
(4,312,266)	-	(4,312,266)	-
500,908	-	500,908	-
1,175,921	-	1,175,921	-
(67,570)	-	(67,570)	-
(57,407)	-	(57,407)	-
<u>(48,905)</u>	<u>-</u>	<u>(48,905)</u>	<u>-</u>
(4,033,889)	-	(4,033,889)	-
-	846,017	846,017	-
-	46,018	46,018	-
<u>-</u>	<u>207,552</u>	<u>207,552</u>	<u>-</u>
-	1,099,587	1,099,587	-
(4,033,889)	1,099,587	(2,934,302)	<u>\$ -</u>
			\$ (276,700)
3,184,708	-	3,184,708	83,399
1,581,682	-	1,581,682	4,688
210,818	(13,053)	197,765	39
437,154	587,190	1,024,344	(25,445)
2,508,000	-	2,508,000	-
<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
<u>7,822,362</u>	<u>674,137</u>	<u>8,496,499</u>	<u>62,681</u>
3,788,473	1,773,724	5,562,197	(214,019)
<u>22,671,665</u>	<u>54,317,857</u>	<u>76,989,522</u>	<u>(1,567,737)</u>
<u>\$ 26,460,138</u>	<u>\$ 56,091,581</u>	<u>\$82,551,719</u>	<u>\$ (1,781,756)</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
ASSETS			
Cash and cash equivalents	\$ 26,779	\$ 434,444	\$ 326,434
Investments	5,404,872	-	-
Receivables			
Accounts	48,213	1,190	-
Property taxes	132,190	-	-
Special assessments	12,691	-	-
Interest	12,484	-	-
Due from other funds	-	-	-
Due from other governmental units	1,280	66,795	24,476
Prepaid items	-	-	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,638,509</u>	<u>\$ 502,429</u>	<u>\$ 350,910</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 93,194	\$ 10,028	\$ 10,503
Due to other funds	-	-	-
Accrued expenses	179,402	5,920	5,361
Unearned revenue	<u>12,580</u>	<u> </u>	<u> </u>
Total liabilities	285,176	15,948	15,864
Deferred inflows of resources			
Unavailable revenue	2,186,105	-	-
 FUND BALANCE			
Nonspendable	-	-	-
Restricted	-	486,481	335,046
Committed	-	-	-
Unassigned	<u>3,167,228</u>	<u> </u>	<u> </u>
Total fund balance	<u>3,167,228</u>	<u>486,481</u>	<u>335,046</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,638,509</u>	<u>\$ 502,429</u>	<u>\$ 350,910</u>

See accompanying notes to the financial statements

<u>Municipal Street Fund</u>	<u>Municipal Street/ Sidewalk Improvement Fund</u>	<u>Capital Projects Fund</u>	<u>Public Improvement Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 51,649	\$ -	\$ 252,849	\$ -	\$ 538,349	\$ 1,634,700
2,721,291	-	470,903	-	623,538	9,220,604
-	-	-	-	53,365	102,768
-	80,058	-	-	-	212,248
-	-	-	-	-	12,691
-	-	-	-	-	12,484
4,196	-	-	-	-	-
-	-	546,992	-	-	639,543
-	-	-	-	630	630
-	-	-	-	48,684	48,684
<u>\$ 2,777,136</u>	<u>\$ 80,058</u>	<u>\$ 1,270,744</u>	<u>\$ -</u>	<u>\$ 1,264,566</u>	<u>\$ 11,884,352</u>
\$ 376,406	\$ 2,145	\$ 563,505	\$ -	\$ 147,682	\$ 1,203,463
-	4,196	-	-	-	4,196
-	-	-	-	30,062	220,745
-	-	-	-	46,974	59,554
376,406	6,341	563,505	-	224,718	1,487,958
-	30,933	-	-	-	2,217,038
-	-	-	-	49,314	49,314
-	42,784	231,379	-	624,521	1,720,211
2,400,730	-	475,860	-	366,013	3,242,603
-	-	-	-	-	3,167,228
<u>2,400,730</u>	<u>42,784</u>	<u>707,239</u>	<u>-</u>	<u>1,039,848</u>	<u>8,179,356</u>
<u>\$ 2,777,136</u>	<u>\$ 80,058</u>	<u>\$ 1,270,744</u>	<u>\$ -</u>	<u>\$ 1,264,566</u>	<u>\$ 11,884,352</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2017**

Total governmental fund balances \$ 8,179,356

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

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

Governmental capital assets	\$ 32,029,316	
Less accumulated depreciation	<u>(13,563,107)</u>	18,466,209

Certain assets do not represent current financial resources and therefore are not reported in the funds.

Deferred outflows of resources - pension		440,145
Net pension asset		264,825

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

Notes payable		(628,009)
Compensated absences		(568,038)
Other postemployment benefits		(2,358,540)

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

Net position of the internal service funds		<u>2,664,190</u>
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Net position of governmental activities \$ 26,460,138

See accompanying notes to the financial statements

**CITY OF STURGIS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
REVENUE			
Taxes	\$ 2,306,099	\$ -	\$ 213,003
Licenses and permits	86,162	-	-
Federal sources	1,260	-	-
State sources	1,585,027	789,149	369,180
County sources	135,000	-	-
Charges for services	164,610	-	-
Fines and forfeits	24,082	-	-
Investment income	163,362	228	212
Contributions	40,553	-	-
Payments in lieu of taxes	2,508,000	-	-
Administrative reimbursement	951,440	-	-
Other	<u>182,139</u>	<u>735</u>	<u>5,156</u>
Total revenue	8,147,734	790,112	587,551
EXPENDITURES			
Legislative	42,311	-	-
General government	1,341,981	-	-
Public safety	4,329,764	-	-
Public works	412,285	626,652	487,837
Health and welfare	57,407	-	-
Recreation and cultural	471,660	-	-
Community and economic development	-	-	-
Capital outlay	320,136	-	-
Debt services	<u>19,457</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,995,001</u>	<u>626,652</u>	<u>487,837</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,152,733	163,460	99,714
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>(1,201,400)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,201,400)</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(48,667)	163,460	99,714
FUND BALANCE – BEGINNING OF YEAR	<u>3,215,895</u>	<u>323,021</u>	<u>235,332</u>
FUND BALANCE – END OF YEAR	<u>\$ 3,167,228</u>	<u>\$ 486,481</u>	<u>\$ 335,046</u>

See accompanying notes to the financial statements

Municipal Street Fund	Municipal Street/ Sidewalk Improvement Fund	Capital Projects Fund	Public Improvement Grant Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 665,606	\$ -	\$ -	\$ -	\$ 3,184,708
-	-	-	-	48,104	134,266
-	-	-	44,200	-	45,460
-	-	-	-	42,900	2,786,256
-	-	1,515,120	-	-	1,650,120
-	-	-	-	996,398	1,161,008
-	-	-	-	18,525	42,607
17,501	2,505	9,977	-	6,881	200,666
-	-	150,000	-	185,865	376,418
-	-	-	-	-	2,508,000
-	-	-	-	-	951,440
<u>10,995</u>	<u>2,594</u>	<u>-</u>	<u>-</u>	<u>69,964</u>	<u>271,583</u>
28,496	670,705	1,675,097	44,200	1,368,637	13,312,532
-	-	-	-	-	42,311
-	-	-	-	277,815	1,619,796
-	-	-	-	128,523	4,458,287
407,239	1,015,880	-	-	245,882	3,195,775
-	-	-	-	-	57,407
-	-	-	-	1,201,050	1,672,710
-	-	-	44,200	110,570	154,770
-	-	1,504,350	-	482,181	2,306,667
-	-	-	-	76,216	95,673
<u>407,239</u>	<u>1,015,880</u>	<u>1,504,350</u>	<u>44,200</u>	<u>2,522,237</u>	<u>13,603,396</u>
(378,743)	(345,175)	170,747	-	(1,153,600)	(290,864)
1,000,000	-	250,000	-	1,214,336	2,464,336
<u>-</u>	<u>-</u>	<u>(1,108,580)</u>	<u>-</u>	<u>(254,356)</u>	<u>(2,564,336)</u>
<u>1,000,000</u>	<u>-</u>	<u>(858,580)</u>	<u>-</u>	<u>959,980</u>	<u>(100,000)</u>
621,257	(345,175)	(687,833)	-	(193,620)	(390,864)
<u>1,779,473</u>	<u>387,959</u>	<u>1,395,072</u>	<u>-</u>	<u>1,233,468</u>	<u>8,570,220</u>
<u>\$ 2,400,730</u>	<u>\$ 42,784</u>	<u>\$ 707,239</u>	<u>\$ -</u>	<u>\$ 1,039,848</u>	<u>\$ 8,179,356</u>

**CITY OF STURGIS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017**

Net change in fund balances - total governmental funds \$ (390,864)

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

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

Net effect of asset disposals	-
Contributed capital assets	1,276,900
Expenditures for capital assets	3,831,780
Depreciation expense	(1,672,857)

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

Proceeds from debt obligations	-
Principal payments on debt obligations	61,464

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

Change in net pension asset/liability and deferred outflows	(638,630)
Change in the accrual for compensated absences	10,203
Change in the accrual for other postemployment benefits	1,193,460

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

Net change from internal service funds related to governmental activities	<u>117,017</u>
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Change in net position of governmental activities	<u>\$ 3,788,473</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017**

<u>ASSETS</u>	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
CURRENT ASSETS		
Cash and equivalents	\$ 387,267	\$ 11,263
Investments	13,295,857	1,724,642
Receivables		
Notes - Current portion	26,969	-
Accounts	3,279,992	376,678
Interest	78,505	-
Inventory	1,136,077	74,473
Prepaid items	-	-
Due from other funds	-	-
Advances due from other funds	-	-
	18,204,667	2,187,056
Total current assets		
NONCURRENT ASSETS		
Restricted assets	62,285	109,000
Interest receivable	41,956	-
Notes receivable	1,837,094	-
Net pension asset	141,239	26,482
Advances due from other funds	770,000	-
Capital assets, net of depreciation	<u>22,610,181</u>	<u>17,231,926</u>
	25,462,755	17,367,408
Total noncurrent assets		
	43,667,422	19,554,464
Total assets		
DEFERRED OUTFLOWS		
Deferred outflows of resources - pension	<u>234,743</u>	<u>44,014</u>

Continued on next page

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 18,797	\$ 417,327	\$ 323,311
912,201	15,932,700	1,295,550
-	26,969	-
168,120	3,824,790	38,732
-	78,505	-
58,671	1,269,221	2,706
-	-	273,470
-	-	-
-	-	-
<u>1,157,789</u>	<u>21,549,512</u>	<u>1,933,769</u>
-	171,285	-
-	41,956	-
-	1,837,094	-
8,827	176,548	-
-	770,000	-
<u>6,203,070</u>	<u>46,045,177</u>	<u>1,843,015</u>
<u>6,211,897</u>	<u>49,042,060</u>	<u>1,843,015</u>
<u>7,369,686</u>	<u>70,591,572</u>	<u>3,776,784</u>
<u>14,671</u>	<u>293,428</u>	<u>-</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION - Continued
 SEPTEMBER 30, 2017**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	139,222	503,750
Accounts payable	2,202,147	67,432
Accrued expenses	362,674	18,195
Customer deposits	220,508	-
Due to other funds	-	-
Advances due to other funds	-	-
Unearned revenue	-	-
	2,924,551	589,377
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	1,664,735	6,863,118
Compensated absences	184,000	38,000
Other postemployment benefits	589,634	294,818
Advances due to other funds	-	-
	2,438,369	7,195,936
Total liabilities	5,362,920	7,785,313
NET POSITION		
Invested in capital assets, net of related debt	20,806,222	9,865,058
Restricted	62,285	109,000
Unrestricted	17,670,738	1,839,107
Total net position	\$38,539,245	\$11,813,165

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
73,750	716,722	61,165
36,892	2,306,471	448,377
13,950	394,819	2,168
-	220,508	-
-	-	-
-	-	-
-	-	-
<u>124,592</u>	<u>3,638,520</u>	<u>511,710</u>
708,836	9,236,689	600,884
9,000	231,000	-
32,758	917,210	-
<u>770,000</u>	<u>770,000</u>	<u>-</u>
<u>1,520,594</u>	<u>11,154,899</u>	<u>600,884</u>
<u>1,645,186</u>	<u>14,793,419</u>	<u>1,112,594</u>
5,420,484	36,091,764	1,180,966
-	171,285	-
<u>318,687</u>	<u>19,828,532</u>	<u>1,483,224</u>
<u>\$ 5,739,171</u>	<u>\$56,091,581</u>	<u>\$ 2,664,190</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN NET POSITION
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
OPERATING REVENUE		
Charges for services	\$ 26,195,293	\$ 3,388,783
State grants	-	161,587
Other	<u>190,418</u>	<u>27,300</u>
Total operating revenue	26,385,711	3,577,670
OPERATING EXPENSES		
Purchased power	15,937,475	-
Material, maintenance and other	2,687,022	1,610,347
General and administrative	2,878,853	335,437
Payments in lieu of taxes	2,185,320	219,960
Depreciation	<u>1,736,918</u>	<u>1,184,981</u>
Total operating expenses	<u>25,425,588</u>	<u>3,350,725</u>
OPERATING INCOME (LOSS)	960,123	226,945
NONOPERATING REVENUE (EXPENSES)		
Investment income (loss)	(42,766)	21,480
Interest expense	(114,106)	(180,927)
(Loss) Gain on sale of assets	-	-
Other	<u>577,412</u>	<u>5,685</u>
Total non-operating revenue (expenses)	<u>420,540</u>	<u>(153,762)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,380,663	73,183
CAPITAL CONTRIBUTIONS	-	-
TRANSFERS		
Transfers in	80,000	20,000
Transfers out	<u>-</u>	<u>-</u>
Total transfers	<u>80,000</u>	<u>20,000</u>
CHANGE IN NET POSITION	1,460,663	93,183
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>37,078,582</u>	<u>11,719,982</u>
NET POSITION - ENDING OF YEAR	<u>\$ 38,539,245</u>	<u>\$ 11,813,165</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,542,391	\$ 31,126,467	\$ 2,724,036
-	161,587	-
<u>54,774</u>	<u>272,492</u>	<u>314,019</u>
1,597,165	31,560,546	3,038,055
-	15,937,475	-
507,711	4,805,080	2,428,708
392,818	3,607,108	40,024
102,720	2,508,000	-
<u>362,576</u>	<u>3,284,475</u>	<u>540,553</u>
<u>1,365,825</u>	<u>30,142,138</u>	<u>3,009,285</u>
231,340	1,418,408	28,770
8,233	(13,053)	10,152
(23,788)	(318,821)	(14,698)
-	-	92,793
<u>4,093</u>	<u>587,190</u>	<u>-</u>
<u>(11,462)</u>	<u>255,316</u>	<u>88,247</u>
219,878	1,673,724	117,017
-	-	-
-	100,000	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>100,000</u>	<u>-</u>
219,878	1,773,724	117,017
<u>5,519,293</u>	<u>54,317,857</u>	<u>2,547,173</u>
<u>\$ 5,739,171</u>	<u>\$ 56,091,581</u>	<u>\$ 2,664,190</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 26,045,448	\$ 3,397,951
Receipts from operating grants	-	38,316
Receipts for internal services	-	-
Other operating revenue	190,418	27,300
Payments to employees and suppliers	<u>(23,752,867)</u>	<u>(1,803,986)</u>
Net cash provided by (used for) operating activities	2,482,999	1,659,581
Cash flows from non-capital financing activities		
Contributions and other receipts	577,412	5,685
Transfers in	80,000	20,000
Transfers out	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	657,412	25,685
Cash flows from capital and related financing activities		
Principal paid on debt	(816,035)	(843,750)
Interest paid on debt	(129,970)	(181,197)
Receipts from interfund loans	-	-
Payments against interfund loans	(770,000)	-
Customer deposits	5,249	-
Acquisition of capital assets	(1,520,008)	(1,277,278)
Proceeds from sale of capital assets	-	-
Receipts from capital grants/contributions	-	-
Proceeds from issuance of debt	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(3,230,764)	(2,302,225)
Cash flows from investing activities		
Interest received on investments	17,117	21,480
Purchase of investments	-	-
Proceeds from maturity of investments	457,023	528,953
Change in net pension asset	(64,074)	20,404
Collections of loans receivable	<u>26,970</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>437,036</u>	<u>570,837</u>
Net increase (decrease) in cash	346,683	(46,122)
Cash - beginning of year	<u>40,584</u>	<u>57,385</u>
Cash - ending of year	<u>\$ 387,267</u>	<u>\$ 11,263</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,539,535	\$ 30,982,934	\$ 298,438
-	38,316	-
-	-	2,732,155
54,774	272,492	-
<u>(1,034,484)</u>	<u>(26,591,337)</u>	<u>(2,374,431)</u>
559,825	4,702,405	656,162
4,093	587,190	-
-	100,000	-
<u>-</u>	<u>-</u>	<u>-</u>
4,093	687,190	-
(68,750)	(1,728,535)	(60,011)
(24,058)	(335,225)	(14,698)
770,000	770,000	-
-	(770,000)	-
-	5,249	-
(1,313,650)	(4,110,936)	(326,438)
-	-	92,793
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
(636,458)	(6,169,447)	(308,354)
8,233	46,830	10,153
(8,126)	(8,126)	(289,672)
-	985,976	-
14,202	(29,468)	-
<u>-</u>	<u>26,970</u>	<u>-</u>
<u>14,309</u>	<u>1,022,182</u>	<u>(279,519)</u>
(58,231)	242,330	68,289
<u>77,028</u>	<u>174,997</u>	<u>255,022</u>
<u>\$ 18,797</u>	<u>\$ 417,327</u>	<u>\$ 323,311</u>

**CITY OF STURGIS
 PROPRIETARY FUNDS
 STATEMENT CASH FLOWS - Continued
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>Electric Fund</u>	<u>Sanitary Sewer Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 960,123	\$ 226,945
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,736,918	1,184,981
Provision for bad debts	-	-
Provision for purchased power adjustment	(60,000)	-
(Increase) decrease in:		
Accounts receivable	(149,845)	9,168
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	38,316
Inventory	(154,113)	15,241
Prepaid items	-	-
Due from other funds	-	-
Other current assets	-	-
Increase (decrease) in:		
Accounts payable	(118,733)	3,887
Accrued expenses	268,649	181,043
Due to other funds	-	-
Unearned revenue	-	-
Net cash provided by (used for) operating activities	<u>\$ 2,482,999</u>	<u>\$ 1,659,581</u>

See accompanying notes to the financial statements

<u>Water Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 231,340	\$ 1,418,408	\$ 28,770
362,576	3,284,475	540,553
-	-	-
-	(60,000)	-
(2,856)	(143,533)	4,806
-	-	-
-	-	-
-	38,316	-
(2,704)	(141,576)	357
-	-	81,099
-	-	-
-	-	-
(13,266)	(128,112)	330
(15,265)	434,427	247
-	-	-
-	-	-
<u>\$ 559,825</u>	<u>\$ 4,702,405</u>	<u>\$ 656,162</u>

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2017**

	<u>Pension Trust Fund</u>	<u>Other Postemployment Benefit Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 41,969	\$ -	\$ 674,830
Investments at market value			
Money market funds	1,029,515	-	-
U.S. Government agencies	3,435,698	-	-
Mutual funds	4,254,111	7,096,892	-
Corporate bonds and notes	3,101,569	-	-
Common and preferred stock	23,629,168	-	-
Accounts receivable	129,344	-	-
Dividends and interest receivable	<u>63,410</u>	<u>-</u>	<u>-</u>
Total assets	35,684,784	7,096,892	674,830
<u>LIABILITIES</u>			
Accounts payable	129,435	-	-
Due to other governmental units	-	-	623,852
Other liabilities	<u>-</u>	<u>-</u>	<u>50,978</u>
Total liabilities	<u>129,435</u>	<u>-</u>	<u>674,830</u>
<u>NET POSITION</u>			
Held in trust for			
pension benefits and post			
employment benefits	<u>\$ 35,555,349</u>	<u>\$ 7,096,892</u>	<u>\$ -</u>

See accompanying notes to the financial statements

**CITY OF STURGIS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Pension Trust Fund</u>	<u>Other Postemployment Benefit Trust Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ 511,855	\$ 1,628,100
Employee/Retiree	<u>165,472</u>	<u>101,808</u>
Total contributions	677,327	1,729,908
Investment income:		
Interest and dividends	911,036	-
Net appreciation (depreciation) in fair value of investments	2,588,279	739,141
Investment expenses	<u>(205,301)</u>	<u>-</u>
Total investment income (loss)	<u>3,294,014</u>	<u>739,141</u>
Total additions	3,971,341	2,469,049
DEDUCTIONS		
Benefits	1,743,986	592,824
Refunds	22,142	-
Administrative expense	<u>46,543</u>	<u>-</u>
Total deductions	<u>1,812,671</u>	<u>592,824</u>
Net increase (decrease)	2,158,670	1,876,225
Net position held in trust for pension benefits and postemployment benefits		
Beginning of year	<u>33,396,679</u>	<u>5,220,667</u>
End of year	<u>\$ 35,555,349</u>	<u>\$ 7,096,892</u>

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 89,323	\$ 5,600
Accounts receivable	2,413	68,318
Prepaid assets	2,550	
Lease receivable - current portion	-	-
Lease receivable - long-term portion	-	-
Capital assets Other capital assets, net of depreciation	<u>192,018</u>	<u>-</u>
Total assets	286,304	73,918
<u>LIABILITIES</u>		
Accounts payable	926	70,205
Accrued interest payable	-	41,956
Unearned revenue	-	-
Debt Obligations:		
Due within one year	11,642	30,036
Due in more than one year	<u>105,224</u>	<u>1,889,918</u>
Total liabilities	<u>117,792</u>	<u>2,032,115</u>
Deferred inflows of resources Unavailable revenue	<u>30,568</u>	<u>-</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	75,152	-
Unrestricted (deficit)	<u>62,792</u>	<u>(1,958,197)</u>
Total net position (deficit)	<u>\$ 137,944</u>	<u>\$ (1,958,197)</u>

See accompanying notes to the financial statements

<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ 36,428	\$ 2,069	\$ 133,420
4,954	-	75,685
-	-	2,550
-	330,000	330,000
-	8,200,000	8,200,000
-	-	192,018
41,382	8,532,069	8,933,673
-	-	71,131
-	-	41,956
-	-	-
-	330,000	371,678
-	8,200,000	10,195,142
-	8,530,000	10,679,907
4,954	-	35,522
-	-	75,152
36,428	2,069	(1,856,908)
\$ 36,428	\$ 2,069	\$ (1,781,756)

CITY OF STURGIS
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Downtown Development Authority	\$ 77,470	\$ 19,661	\$ -
Brownfield Redevelopment Authority	252,475	-	33,334
Local Development Finance Authority	-	-	-
Building Authority	322,263	322,513	-
Total discretely presented component units	\$ 652,208	\$ 342,174	\$ 33,334

General revenues:

- Captured property taxes
- State unrestricted sources
- Unrestricted investment earnings
- Asset impairment
- Miscellaneous

Total general revenues

Change in net position

Net position (deficit) - beginning of year

Net position (deficit) - end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Change in Net Position

<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Local Development Finance Authority</u>	<u>Building Authority</u>	<u>Combined Totals</u>
\$ (57,809)	\$ -	\$ -	\$ -	\$ (57,809)
-	(219,141)	-	-	(219,141)
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>250</u>
(57,809)	(219,141)	-	250	(276,700)
38,363	9,626	35,410	-	83,399
4,688	-	-	-	4,688
12	-	27	-	39
(26,000)	-	-	-	(26,000)
<u>555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>555</u>
<u>17,618</u>	<u>9,626</u>	<u>35,437</u>	<u>-</u>	<u>62,681</u>
(40,191)	(209,515)	35,437	250	(214,019)
<u>178,135</u>	<u>(1,748,682)</u>	<u>991</u>	<u>1,819</u>	<u>(1,567,737)</u>
<u>\$ 137,944</u>	<u>\$ (1,958,197)</u>	<u>\$ 36,428</u>	<u>\$ 2,069</u>	<u>\$ (1,781,756)</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units

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

Complete financial statements of the Downtown Development Authority may be obtained at the City's Controller's office at 130 N. Nottawa, Sturgis, Michigan 49091.

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

The City reports the following major funds:

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

Special Revenue Funds

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Public Improvement Fund - To account for grant programs that accomplish community and economic development.

Enterprise Funds

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

- * Prior to August 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted at the City hall to obtain public comments.
- * Prior to August 20th the budget and annual appropriations act are legally adopted by the City Commission.
- * Formal budget integration is employed as a management control device during the year for all budgetary funds.
- * Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.
- * Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2017, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- * All budget appropriations lapse at the end of the year.
- * Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

Receivables - 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.

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, 2017, was \$10.0285 per \$1,000 of taxable valuation. The tax rate to finance City street/sidewalk improvements for the year ended September 30, 2017, was \$3.00 per \$1,000 taxable valuation. The 2016 taxable value of the City was \$210,686,000.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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. More detailed information can be found in Note 12.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 (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 years operation. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. More detailed information can be found in Note 3.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Financial statement caption:			
Primary Government:			
Cash and investments	\$ 1,883,189	\$ 26,312,286	\$ 28,195,475
Restricted assets	26,079	769,727	795,806
Component Units:			
Cash and Investments	133,420	-	133,420
Fiduciary Funds:			
Cash and cash equivalents	716,799	-	716,799
Investments	-	42,546,953	42,546,953
Total	\$ 2,759,487	\$ 69,628,966	\$ 72,388,453

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2017, the maturities and credit quality rating of debt securities are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&P Rating</u>
		<u>< Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> Than 10</u>	
* Primary Government						
Michigan Municipal Bonds	\$ 406,733	256,178	150,555	-	-	AAA-AA
First Merit Bank - Federated US Treasury Cash Reserve	1,068,285					Not Rated
Michigan Cooperative Liquid Assets Securities System	2,304,057					AAAm
U.S. Government Agencies	<u>23,302,938</u>	9,496,452	13,806,486	-	-	AAA-AA
Total Primary Government	<u>27,082,013</u>					
* Pension Trust Fund						
Comerica Bank						
Open ENDMF - Fixed Inc Tax Western Asset Smash Fund	4,254,111					Not Rated
U.S. Government Agencies	3,435,698	341,649	337,706	201,521	2,554,822	AAA-AA
Corporate Bonds and Notes	3,101,569	-	562,478	1,676,271	862,820	AAA-AA
Morgan Stanley Bank Deposit Program	999,629					Not Rated
Goldman Sachs FS Govn. Fund	29,886					Not Rated
Common and Preferred Stocks	<u>23,629,168</u>					N/A
Total Pension Trust Fund	35,450,061					
* OPEB Trust Fund						
Municipal Employee's Retirement System of Michigan						
MERS Established Market Fund	<u>7,096,892</u>					Not Rated
Total Investments	<u>\$ 69,628,966</u>					

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

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

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

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. At September 30, 2017, the City had \$2,164,609 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Component Units had \$-0- of bank deposits that were uninsured and uncollateralized. The City and the Component Units believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and the Component Units evaluates each financial institution with which they deposit funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

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 June 30, 2017:

Primary Government

- U.S. Government Agency debt obligations of \$23,302,938 are valued using quoted market prices (Level 1 inputs).
- Michigan Municipal Bonds of \$406,733 are valued using a matrix pricing model (Level 2 inputs).
- The Michigan Class Pool of \$2,304,057 and the Federated U.S. Treasury Cash Reserve of \$1,068,285 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.

Pension Trust Fund

- U.S. Government Agency debt obligations of \$3,435,698 and Corporate Bonds and Notes of \$3,101,569 and common and Preferred Equities of \$23,629,168 are valued using quoted market prices (Level 1 inputs).
- The Open ENDMF of \$4,254,111 and Morgan Stanley Bank Deposit Program of \$999,629 and Goldman Sachs FS Government Fund of \$29,886 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.

OPEB Trust Fund

- The MERS Established Market Fund of \$7,096,892 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.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 - RECEIVABLES - UNAVAILABLE/UNEARNED REVENUE

Receivables in the governmental activities are 21 percent property tax, 63 percent due from other governments, 14 percent accounts receivable, and 2 percent accrued interest. Business-type activities receivables are 66 percent due from customers, 32 percent loans, and 2 percent accrued interest.

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

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes levied and collected for next fiscal years operation (general fund and municipal street fund)	\$ 2,217,038	\$ -	\$ 2,217,038
Customer deposits for future services/events (general and special revenue funds)	<u>-</u>	<u>59,554</u>	<u>59,554</u>
	<u>\$ 2,217,038</u>	<u>\$ 59,554</u>	<u>\$ 2,276,592</u>

Component Units

Property taxes levied and collected for next fiscal years operation	<u>\$ 35,522</u>	<u>\$ -</u>	<u>\$ 35,522</u>
Accounts receivable that do not meet the definition of available under modified accrual accounting	<u>\$ 68,318</u>	<u>\$ -</u>	<u>\$ 68,318</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4 - FUND BALANCES - GOVERNMENTAL FUNDS

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

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ -	\$ -	\$ 630	\$ 630
Inventory	<u>-</u>	<u>-</u>	<u>48,684</u>	<u>48,684</u>
	<u>-</u>	<u>-</u>	<u>49,314</u>	<u>49,314</u>
Restricted:				
Streets	-	864,311	-	864,311
Capital projects	-	231,379	-	231,379
Cemetery trust	<u>-</u>	<u>-</u>	<u>624,521</u>	<u>624,521</u>
	<u>-</u>	<u>1,095,690</u>	<u>624,521</u>	<u>1,720,211</u>
Committed:				
Streets	-	2,400,730	-	2,400,730
Capital projects	-	475,860	-	475,860
Building Dept.	-	-	155,604	155,604
Housing Dept.	-	-	14,816	14,816
Cemetery	-	-	25,609	25,609
Drug Enforcement	-	-	24,341	24,341
Recreation	-	-	39,380	39,380
Auditorium	-	-	12	12
Arts Council	-	-	50,612	50,612
Recreation center	-	-	22,279	22,279
Airport	<u>-</u>	<u>-</u>	<u>33,360</u>	<u>33,360</u>
	<u>-</u>	<u>2,876,590</u>	<u>366,013</u>	<u>3,242,603</u>
Unassigned	<u>3,167,228</u>	<u>-</u>	<u>-</u>	<u>3,167,228</u>
 Total fund balances - Governmental funds	 <u>\$ 3,167,228</u>	 <u>\$ 3,972,280</u>	 <u>\$ 1,039,848</u>	 <u>\$ 8,179,356</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2017:

<u>Due from/to other funds</u>	<u>Receivable</u>		<u>Payable</u>
Municipal Street	\$ 4,196	Municipal Street/Sidewalk Improvement	\$ 4,196
<u>Advances from/to other funds</u>			
Electric	\$ 770,000	Water	\$ 770,000

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

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended September 30, 2017:

<u>Transfers Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>In</u>
General	\$ 1,201,400	Capital Projects	\$ 250,000
		Building Department	50,000
		Housing Development	75,000
		Cemetery	178,980
		Drug Enforcement	20,000
		Recreation	99,600
		Civic Auditorium - operating	240,000
		Civic Auditorium - debt service	52,820
		Doyle Community Center	35,000
		Airport	100,000
		Electric	<u>80,000</u>
	<u>1,201,400</u>		<u>1,181,400</u>
Capital Projects	1,108,580	Sanitary Sewer	20,000
		Airport	33,580
		Doyle Community Center	75,000
		Municipal Street	<u>1,000,000</u>
	<u>1,108,580</u>		<u>1,128,580</u>
Cemetery Trust	<u>254,356</u>	Cemetery	<u>254,356</u>
Total Primary Government	<u>\$ 2,564,336</u>		<u>\$ 2,564,336</u>

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

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017, was as follows:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance September 30, 2017</u>
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Construction in progress	<u>-</u>	<u>1,785,516</u>	<u>-</u>	<u>1,785,516</u>
Subtotal	566,260	1,785,516	-	2,351,776
Capital assets, being depreciated:				
Infrastructure	10,427,027	2,682,296	-	13,109,323
Land - improvements	5,477,194	565,964	9,249	6,033,909
Buildings and improvements	8,681,934	54,601	-	8,736,535
Machinery and equipment	2,670,538	40,072	55,968	2,654,642
Vehicles	4,965,492	306,670	583,780	4,688,382
Office furniture and equipment	<u>389,987</u>	<u>-</u>	<u>-</u>	<u>389,987</u>
Subtotal	32,612,172	3,649,603	648,997	35,612,778
Accumulated depreciation				
Infrastructure	2,908,861	1,082,636	-	3,991,497
Land improvements	3,654,319	262,164	9,249	3,907,234
Buildings and improvements	3,804,046	244,352	-	4,048,398
Machinery and equipment	2,085,051	192,958	55,968	2,222,041
Vehicles	3,255,533	426,715	583,780	3,098,468
Office furniture and equipment	<u>383,105</u>	<u>4,587</u>	<u>-</u>	<u>387,692</u>
Subtotal	<u>16,090,915</u>	<u>2,213,412</u>	<u>648,997</u>	<u>17,655,330</u>
Net capital assets being depreciated	<u>16,521,257</u>			<u>17,957,448</u>
Net capital assets	<u>\$ 17,087,517</u>			<u>\$ 20,309,224</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS - Continued

	Balance October 1, 2016	Additions	Disposals/ Transfers	Balance Sept. 30, 2017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 577,093	\$ -	\$ -	\$ 577,093
Construction in progress	<u>3,262,440</u>	<u>419,842</u>	<u>3,002,020</u>	<u>680,262</u>
Subtotal	3,839,533	419,842	3,002,020	1,257,355
Capital assets, being depreciated:				
Land improvements	1,622,268	-	-	1,622,268
Buildings, improvements and system	110,607,931	6,137,179	-	116,745,110
Machinery and equipment	1,145,685	555,934	-	1,701,619
Office furniture and equipment	<u>24,952</u>	<u>-</u>	<u>-</u>	<u>24,952</u>
Subtotal	113,400,836	6,693,113	-	120,093,949
Accumulated depreciation				
Land improvements	1,245,703	178,061	-	1,423,764
Buildings, improvements and system	70,380,798	3,031,846	-	73,412,644
Machinery and equipment	370,199	74,568	-	444,767
Office furniture and equipment	<u>24,952</u>	<u>-</u>	<u>-</u>	<u>24,952</u>
Subtotal	<u>72,021,652</u>	<u>3,284,475</u>	<u>-</u>	<u>75,306,127</u>
Net capital assets being depreciated	<u>41,379,184</u>			<u>44,787,822</u>
Net capital assets	<u>\$ 45,218,717</u>			<u>\$ 46,045,177</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental activities:		Business-type activities:	
General government	\$ 351,819	Electric	\$ 1,736,918
Public safety	582,910	Sanitary Sewer	1,184,981
Public works	989,166	Water	<u>362,576</u>
Recreation and cultural	<u>289,517</u>		
Total	<u>\$ 2,213,412</u>	Total	<u>\$ 3,284,475</u>

Discretely Presented Component Units

Downtown Development Authority

	Balance October 1, 2016	<u>Additions</u>	<u>Disposals</u>	Balance September 30, 2017
Capital assets, being depreciated				
Land improvements	\$ 283,662	\$ -	\$ -	\$ 283,662
Buildings and improvements	<u>404,364</u>	<u>-</u>	<u>26,000</u>	<u>378,364</u>
Subtotal	688,026	-	26,000	662,026
Accumulated depreciation				
Land improvements	184,450	18,910	-	203,360
Buildings and improvements	<u>246,430</u>	<u>20,218</u>	<u>-</u>	<u>266,648</u>
Subtotal	<u>430,880</u>	<u>39,128</u>	<u>-</u>	<u>470,008</u>
Net capital assets being depreciated	<u>\$ 257,146</u>			<u>\$ 192,018</u>

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

Downtown Development Authority	<u>\$ 39,128</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended September 30, 2017:

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2017</u>	Current <u>Portion</u>
Governmental Activities					
Loans payable	\$ 1,411,533	\$ -	\$ 121,475	\$ 1,290,058	\$ 123,631
Compensated absences	578,241	569,712	579,915	568,038	-
Net OPEB obligation	<u>3,552,000</u>	<u>642,871</u>	<u>1,836,331</u>	<u>2,358,540</u>	<u>-</u>
	5,541,774	1,212,583	2,537,721	4,216,636	123,631
Business-Type Activities					
Revenue bonds	11,681,948	-	1,728,537	9,953,411	757,534
Compensated absences	325,000	137,931	231,931	231,000	-
Net OPEB obligation	<u>394,385</u>	<u>1,236,952</u>	<u>714,129</u>	<u>917,208</u>	<u>-</u>
	<u>12,401,333</u>	<u>1,374,883</u>	<u>2,674,597</u>	<u>11,101,619</u>	<u>757,534</u>
Total Primary Government Long-Term Debt	<u>\$ 17,943,107</u>	<u>\$ 2,587,466</u>	<u>\$ 5,212,318</u>	<u>\$ 15,318,255</u>	<u>\$ 881,165</u>

Long-term debt payables at September 30, 2017, 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% \$ 628,009

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 \$148,184 185,099

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 \$549,509 476,950

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 - LONG-TERM DEBT - Continued

Compensated absence	568,038
Net OPEB obligation	<u>2,358,540</u>
Total Governmental Activities Long-Term Liability	<u>\$ 4,216,636</u>
Business-Type Activities	
\$3,416,554 2010 Capital Improvement bonds payable annually, beginning November 1, 2011 and ending November 1, 2025, ranging from \$198,007 to \$275,657, plus interest paid semi-annually at 1.4% to 6.0%	\$ 2,186,990
\$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%	591,070
\$2,660,000 2007 State/Clean Water Revolving Fund loan payable annually, beginning April 1, 2013 and ending April 1, 2028, ranging from \$115,000 to \$145,587, including interest paid semi-annually at 1.625%	1,545,587
\$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	3,082,172
\$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	2,175,918
\$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	371,674
Compensated Absences	231,000
Net OPEB Obligation	<u>917,208</u>
Total Business-Type Activities Long-Term Liabilities	<u>11,101,619</u>
Total Primary Government Long-Term Debt	<u>\$ 15,318,255</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2017 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2018	\$ 123,631	\$ 45,412	\$ 169,043
2019	126,506	41,019	167,525
2020	130,537	36,241	166,778
2021	132,739	32,883	165,622
2022	135,601	30,675	166,276
2023-2027	497,434	72,250	569,684
2028-2032	143,610	11,678	155,288
Total	\$ 1,290,058	\$ 270,158	\$ 1,560,216

	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 757,534	\$ 276,111	\$ 1,033,645
2019	771,418	255,296	1,026,714
2020	794,187	233,023	1,027,210
2021	803,072	209,635	1,012,707
2022	825,841	185,132	1,010,973
2023-2027	4,121,009	520,026	4,641,035
2028-2032	1,532,759	101,718	1,634,477
2033-2034	347,591	7,290	354,881
Total	\$ 9,953,411	\$ 1,788,231	\$11,741,642

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Downtown Development Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2017:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2017</u>	<u>Current Portion</u>
Loan Payable	\$ 128,059	\$ -	\$ 11,193	\$ 116,866	\$ 11,642

Long-term debt payable at September 30, 2017, consisted of the following individual issue:

Note payable to Farmers State Bank in the amount of \$180,000, monthly payment of \$1,275 including interest at 3.29%, final payment due August 1, 2026, unsecured \$ 116,866

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

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2017 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 11,642	\$ 3,654	\$ 15,296
2019	12,041	3,255	15,296
2020	12,493	2,803	15,296
2021	13,006	2,290	15,296
2022	13,275	2,021	15,296
Thereafter	<u>54,409</u>	<u>5,504</u>	<u>59,913</u>
Total	<u>\$ 116,866</u>	<u>\$ 19,527</u>	<u>\$ 136,393</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Brownfield Redevelopment Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2017:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Current Portion
Loans Payable	\$ 1,949,546	\$ -	\$ 29,592	\$ 1,919,954	\$ 30,036

Long-term debt payable at September 30, 2017, 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	\$ 219,954
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Note payable to City of Sturgis - Electric Fund in the amount (not to exceed) \$1,700,000, deferred payments until June 1, 2021, thirty years maximum, annual payment, interest accrues at 2.468%, payments apply to principal until paid, interest balance accrues and will be paid last per Development Agreement and Brownfield Plan	1,700,000
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Total	<u>\$ 1,919,954</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2017 including both principal and interest, are as follows:

	Principal	Interest	Total
2018	\$ 30,036	\$ 3,299	\$ 33,335
2019	30,487	2,848	33,335
2020	30,944	2,391	33,335
2021	31,408	1,927	33,335
2022	31,879	1,456	33,335
2023-2024	65,200	1,470	66,670
Total - scheduled debt	219,954	13,391	233,345
Unscheduled debt	1,700,000	41,956	1,741,956
Total	<u>\$ 1,919,954</u>	<u>\$ 55,347</u>	<u>\$ 1,975,301</u>

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7 - LONG-TERM DEBT - Continued

Discretely Presented Component Units

Building Authority

Following is a summary of long-term debt transactions for the year ended September 30, 2017:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2017</u>	<u>Current Portion</u>
Revenue					
Bonds	<u>\$ 8,855,000</u>	<u>\$ -</u>	<u>\$ 325,000</u>	<u>\$ 8,530,000</u>	<u>\$ 330,000</u>

Long-term debt payable at September 30, 2017, 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>\$ 8,530,000</u>
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Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2017 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 330,000	\$ 315,513	\$ 645,513
2019	340,000	308,912	648,912
2020	350,000	302,112	652,112
2021	370,000	291,613	661,613
2022	385,000	280,512	665,512
2023-2027	2,290,000	1,187,813	3,477,813
2028-2032	3,010,000	671,300	3,681,300
2033-2034	<u>1,455,000</u>	<u>88,000</u>	<u>1,543,000</u>
Total	<u>\$ 8,530,000</u>	<u>\$ 3,445,775</u>	<u>\$ 11,975,775</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8 - NOTES RECEIVABLE

At September 30, 2017, 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	\$ 164,063
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>\$ 1,864,063</u>

NOTE 9 - LEASE RECEIVABLE

Discretely Presented Component Units

BUILDING AUTHORITY

At September 30, 2017, the Building Authority reflected the following lease receivable:

Lease receivable from Sturgis Hospital, Inc. collectible in monthly installments beginning March 1, 2010 and ending September 1, 2034, ranging from \$322,561 to \$411,159, receipts are pledged to the payment of the principal and interest on the Authority Bonds payable	<u>\$ 8,530,000</u>
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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. The City continues to maintain the self-insurance reserve in an internal service fund for active run-out claims.

During the year ended September 30, 2017, a total of \$-0- was incurred in workers' compensation claims and related administrative costs.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2017, was as follows:

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

For all eligible City employees, the City purchases commercial health care insurance. Stop-loss insurance coverage limits claim expense to \$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 \$685,840 in 2017 and are reported in the Employee Benefit Fund.

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2017, was as follows:

Claims liability October 1	\$ 276,100
Current year claims and changes in estimates	685,840
Claim payments	<u>685,840</u>
Claims liability September 30	<u>\$ 276,100</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 2017, the City contributed \$141,019 in employer matching contributions. Plan provision and contribution requirements can only be amended by authorization of the City Commission.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all City unionized employees who normally work 1,950 hours or more a year, and all other full time City employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At September 30, 2017, the date of the most recent actuarial valuation, membership consisted of 105 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 90 current active employees. The plan does not issue a separate financial report.

Summary of Significant Accounting Policies

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

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

Contributions

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

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

<u>Eligibility</u>	<u>Amount</u>
REGULAR RETIREMENT (no reduction factor for age)	
General (hired prior to 1/1/2016 and Electric Union (hired prior to 3/1/15): Any age with 25 years of service.	<u>Total service multiplied by:</u> General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200.
General (hired prior to 1/1/2016 and Electric Union (hired prior to 3/1/15): Age 55 with 25 years of service.	Electrical - 2.0% of FAC
General and Electric: Age 60 with 10 years of service of 65 with 5 years of service.	
Police and Fire Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	2.5% of FAC
Type of final average compensation	Fire: Highest 3 consecutive years out of last 5. Others: Highest 5 consecutive years out of last 10
DEFERRED RETIREMENT	
Electrical (hired prior to 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: 8 years of service, 5 years of service if retiring at age 60	
Other: 10 years of service.	

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

Eligibility	Amount
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NON-DUTY DEATH BEFORE RETIREMENT

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

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

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

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

General	1.80% of gross pension wages.
Electric	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.

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS

Eligibility	Amount
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.

MEMBER FAC FACTOR BUY-UP CONTRIBUTIONS

Electric (hired prior to 3/1/2008)	Discontinued on 10/1/2014.
Fire	Discontinued on 10/1/2011.
Police and Dispatchers	Discontinued on 10/1/2013.

POST-RETIREMENT ADJUSTMENT

Police Union	In addition to normal pension benefits, the City will pay as a cost of living adjustment \$500 per year for 15 years, on a cumulative basis, to the first 2 employees who irrevocably notify the City and retire in each of the contract years commencing 10/1/2003, 2004, and 2005.
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CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

For the year ended September 30, 2017, the City recognized pension expense of \$1,121,017 computed as follows:

Service cost	\$ 681,111
Interest on total pension liability	2,164,205
Current-period benefit changes	-
Employee contributions	(165,471)
Projected earnings on plan investments	(2,133,263)
Pension plan administrative expense	65,685
Other changes in plan fiduciary net position	-
Recognition of Outflow (Inflow) of Resources due to liabilities	350,796
Recognition of Outflow (Inflow) of Resources due to assets	<u>157,954</u>
Total Pension Expense	<u>\$ 1,121,017</u>

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Net Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$ (296,528)
Changes in assumptions	1,325,161
Net difference between projected and actual earnings on plan investments	<u>(295,060)</u>
Total	<u>\$ 733,573</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>Year Ending September 30,</u>	<u>Net Deferred Outflows of Resources</u>
	2018	\$ 508,750
	2019	558,708
	2020	(127,306)
	2021	<u>(206,579)</u>
Total		<u>\$ 733,573</u>

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

Pension Plan Disclosures under GASB Statement 67

Actuarial Valuation Date	September 30, 2017
Pension Plan's fiscal Year Ending Date (Measurement Date & Reporting Date)	September 30, 2017

Membership

Number of		
-Retirees and Beneficiaries	105	
-Inactive, Nonretired Members	28	
-Active Members	90	
-Total	223	
Covered Payroll	\$ 5,532,246	

Net Pension Liability

Total Pension Liability	\$ 35,113,976
Plan Fiduciary Net Position	35,555,349
Net pension Liability (Asset)	\$ (441,373)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	101.26%
Net Pension Liability as a Percentage of Covered Payroll	(7.98)%

Development of the Single Discount Rate

Single Discount Rate	6.5%
Long-Term Expected Rate of Return	6.5%
Long-Term Municipal Bond Rate*	3.5%
Last year ending September 30 in the 2018 to 2117 projection period for which projected benefit payments are fully funded	2117

Total Pension Expense \$ 1,121,017

Deferred Outflows and Deferred Inflows of Resources by Source to be recognized in Future Pension Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 158,122	\$ 454,650
Changes in assumptions	1,328,317	3,156
Net difference between projected and actual earnings on pension plan investments	1,065,892	1,360,952
	\$ 2,552,331	\$ 1,818,758

*Source Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of September 30, 2017. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Fixed Income	37%	5.0%
Large Cap Growth Equity	24%	10.3%
Large Cap Value Equity	24%	10.0%
International Equity	10%	9.7% - 12.0%
Small/Mid Cap Equity	5%	11.3% - 12.2%

MEASUREMENT OF THE NET PENSION LIABILITY

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

A Single Discount Rate of 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% and a municipal bond rate of 3.06%. 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 and future contributions were sufficient to finance the benefit payments through the year 2117. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2117, and the municipal bond rate was applied to all benefit payments after that date.

**CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - Continued

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

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

1% Decrease	Current Single Discount Rate Assumption	1% Increase
<u>5.50%</u>	<u>6.50%</u>	<u>7.50%</u>
\$ 4,215,999	\$ (441,373)	\$ (4,295,860)

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS

Description

Effective October 1, 2007, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$2,358,540 and \$917,210 in governmental and business-type activities, respectively.

The City provides certain health care benefits for retirees, as per the requirements of union contracts and the authority of the City Commission. Currently 75 percent of the City's full-time employees may become eligible for these benefits if they retire from the City and receive a pension. The City covers the majority of the cost by purchasing health care insurance. Currently, 98 retirees are eligible for health care benefits of which 68 are enrolled.

Funding Policy

The Plan is financed by annual employer contributions to the Other Postemployment Benefit Trust Fund and by charges for services revenues accounted for in the Employee Benefit Internal Service Fund. Post-employment health care costs are accounted for in the Employee Benefits Fund. Contribution levels are determined annually by the City Commission during the annual budget process after considering the actuarially determined annual required contribution and the expected cash outlay for the annual benefits and available resources. For fiscal year 2017 the City contributed \$1,628,100 to the Plan of which \$592,824 was used to pay benefits and \$1,035,276 was held in a trust fund. Transfers to the Employee Benefits Fund in excess of the actual pay-as-you-go costs are held in trust, so they do reduce the City's net-OPEB obligation.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,629,825
Interest on net OPEB obligation	<u>250,000</u>
Annual OPEB cost	1,879,825
Increase in assets held in trust fund	739,141
Contributions made	<u>1,811,319</u>
Increase (decrease) in net OPEB obligation	(670,635)
Net OPEB obligation - beginning of year	<u>3,946,385</u>
Net OPEB obligation - end of year	<u>\$ 3,275,750</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 through 2017 were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation-</u> <u>End of Year</u>
9/30/08	\$ 1,410,567	39.6%	\$ 851,823
9/30/09	1,474,072	35.1%	1,808,353
9/30/10	2,048,963	27.5%	3,293,917
9/30/11	1,999,632	51.9%	4,254,939
9/30/12	1,474,035	84.4%	4,371,351
9/30/13	1,452,152	84.5%	4,408,726
9/30/14	1,469,183	87.4%	4,377,952
9/30/15	1,418,911	99.9%	4,502,000
9/30/16	1,610,450	103.7%	3,946,385
9/30/17	1,879,825	96.4%	3,275,750

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

Funding Status and Funding Progress

As of September 30, 2017, the most recent actuarial valuation date, the Plan was partially funded. The actuarial accrued liability for benefits equaled \$11,000,666, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,903,764. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$3,742,399, and the ratio of the UAAL to the covered payroll equaled 104%.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 - POST-EMPLOYMENT HEALTH CARE BENEFITS - Continued

Funding Status and Funding Progress - Continued

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

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

Actuarial Methods and Assumptions

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

In the actuarial valuation dated September 30, 2017, the entry age normal actuarial cost method was used. Because the City funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 7.0% discount rate, which approximates the expected rate of return on non-pension investments held by the City. Actuarial assumptions also included annual health care and prescription drug cost trend rates of 9% and 9%, respectively, initially, reduced by decrements to an ultimate rate of 4% for both health care and prescription drug costs after five and ten years, respectively. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 14 - CONTINGENT LIABILITIES

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

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

NOTE 15 - PURCHASED POWER AGREEMENT

The City has entered into an agreement as of May 24, 2006, with Indiana Michigan Power Company (American Electric Power) to purchase electric service on a cost-based formula rate. The contract period runs from July 1, 2006 through May 31, 2026 and includes various cancellation clauses for either party based on advance notification dates or specific circumstances arising. The City receives a monthly invoice which includes a demand charge, energy charge and a fuel charge. The fuel charge is adjusted monthly from an estimated fuel rate factor to an actual. The contract also includes a formula rate true-up clause which requires a calendar year computation based on actual generation demand and generation energy charges. For the fiscal year ended September 30, 2017, the City incurred purchased power cost under this agreement of \$15,899,101 which is included in the Electric Fund as Purchased Power expense and includes an estimated liability of \$255,000 for future true-up cost charges.

NOTE 16 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

During the year ended September 30, 2017, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

None Were Material

CITY OF STURGIS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 17 - FUND EQUITY DEFICITS

The Brownfield Redevelopment Authority component unit had a deficit net position (full accrual basis) of \$1,958,197 at September 30, 2017. The City plans to eliminate the net position deficit with future tax increment financing collections.

NOTE 18 - TAX ABATEMENTS

The City received reduced property tax revenues during 2017 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 \$123,941 in reduced City tax revenues for 2017.

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 \$12,942 in reduced City tax revenues for 2017.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ 2,303,000	\$ 2,303,000	\$ 2,306,099	\$ 3,099
Licenses and permits	76,900	77,100	86,162	9,062
Federal sources	1,400	1,200	1,260	60
State sources	1,480,080	1,570,280	1,585,027	14,747
County sources	-	135,000	135,000	-
Charges for services	151,000	151,000	164,610	13,610
Fines and forfeits	33,000	33,000	24,082	(8,918)
Investment income	200,000	150,000	163,362	13,362
Contributions	30,000	35,000	40,553	5,553
Payments in lieu of taxes	2,511,000	2,508,000	2,508,000	-
Administrative reimbursement	955,440	955,440	951,440	(4,000)
Other	<u>163,550</u>	<u>166,350</u>	<u>182,139</u>	<u>15,789</u>
Total revenue	7,905,370	8,085,370	8,147,734	62,364
EXPENDITURES				
Legislative	57,520	57,520	42,311	15,209
General government	1,441,380	1,406,380	1,341,981	64,399
Public safety	4,571,430	4,422,430	4,329,764	92,666
Public works	445,235	445,235	412,285	32,950
Health and welfare	65,000	65,000	57,407	7,593
Recreation and cultural	493,310	513,310	471,660	41,650
Capital outlay	165,000	435,000	320,136	114,864
Debt services	<u>19,900</u>	<u>19,900</u>	<u>19,457</u>	<u>443</u>
Total expenditures	<u>7,258,775</u>	<u>7,364,775</u>	<u>6,995,001</u>	<u>369,774</u>
EXCESS OF REVENUE OVER EXPENDITURES	646,595	720,595	1,152,733	432,138
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(1,177,400)</u>	<u>(1,201,400)</u>	<u>(1,201,400)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,177,400)</u>	<u>(1,201,400)</u>	<u>(1,201,400)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(530,805)	(480,805)	(48,667)	432,138
FUND BALANCE – BEGINNING OF YEAR	<u>3,215,895</u>	<u>3,215,895</u>	<u>3,215,895</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 2,685,090</u>	<u>\$ 2,735,090</u>	<u>\$ 3,167,228</u>	<u>\$ 432,138</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
State sources	\$ 784,000	\$ 784,000	\$ 789,149	\$ 5,149
Investment income	50	50	228	178
Other	<u>500</u>	<u>500</u>	<u>735</u>	<u>235</u>
Total revenue	784,550	784,550	790,112	5,562
 EXPENDITURES				
Public works	<u>647,500</u>	<u>647,500</u>	<u>626,652</u>	<u>20,848</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	137,050	137,050	163,460	26,410
 OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	137,050	137,050	163,460	26,410
 FUND BALANCE – BEGINNING OF YEAR	<u>323,021</u>	<u>323,021</u>	<u>323,021</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 460,071</u>	<u>\$ 460,071</u>	<u>\$ 486,481</u>	<u>\$ 26,410</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 225,000	\$ 225,000	\$ 213,003	\$ (11,997)
State sources	265,400	359,600	369,180	9,580
Investment income	50	50	212	162
Other	<u>-</u>	<u>-</u>	<u>5,156</u>	<u>5,156</u>
Total revenue	490,450	584,650	587,551	2,901
 EXPENDITURES				
Public works	<u>463,950</u>	<u>473,950</u>	<u>487,837</u>	<u>(13,887)</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	26,500	110,700	99,714	(10,986)
 FUND BALANCE – BEGINNING OF YEAR	<u>235,332</u>	<u>235,332</u>	<u>235,332</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 261,832</u>	<u>\$ 346,032</u>	<u>\$ 335,046</u>	<u>\$ (10,986)</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Investment income	\$ -	\$ -	\$ 17,501	\$ 17,501
Other	<u>500</u>	<u>500</u>	<u>10,995</u>	<u>10,495</u>
Total revenue	500	500	28,496	27,996
EXPENDITURES				
Public works	<u>624,235</u>	<u>624,235</u>	<u>407,239</u>	<u>216,996</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(623,735)	(623,735)	(378,743)	244,992
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,000,000	1,000,000	1,000,000	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	376,265	376,265	621,257	244,992
FUND BALANCE – BEGINNING OF YEAR	<u>1,779,473</u>	<u>1,779,473</u>	<u>1,779,473</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 2,155,738</u>	<u>\$ 2,155,738</u>	<u>\$ 2,400,730</u>	<u>\$ 244,992</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
MUNICIPAL STREET/SIDEWALK IMPROVEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
Taxes	\$ 660,000	\$ 672,000	\$ 665,606	\$ (6,394)
Special assessments	8,000	8,000	-	(8,000)
Investment income	-	100	2,505	2,405
Other	<u>100</u>	<u>-</u>	<u>2,594</u>	<u>2,594</u>
Total revenue	668,100	680,100	670,705	(9,395)
 EXPENDITURES				
Public works	<u>843,690</u>	<u>1,043,690</u>	<u>1,015,880</u>	<u>27,810</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(175,590)	(363,590)	(345,175)	18,415
 FUND BALANCE – BEGINNING OF YEAR	<u>387,959</u>	<u>387,959</u>	<u>387,959</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 212,369</u>	<u>\$ 24,369</u>	<u>\$ 42,784</u>	<u>\$ 18,415</u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Amended Budget
REVENUE				
County sources	\$ 1,626,160	\$ 1,626,160	\$ 1,515,120	\$ (111,040)
Investment income	10,000	10,000	9,977	(23)
Contributions	<u>200,000</u>	<u>200,000</u>	<u>150,000</u>	<u>(50,000)</u>
Total revenue	1,836,160	1,836,160	1,675,097	(161,063)
 EXPENDITURES				
Capital Outlay	<u>1,999,760</u>	<u>1,874,760</u>	<u>1,504,350</u>	<u>370,410</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(163,600)	(38,600)	170,747	209,347
 OTHER FINANCING SOURCES (USES)				
Operating transfers in	250,000	250,000	250,000	-
Operating transfers out	<u>(1,000,000)</u>	<u>(1,133,580)</u>	<u>(1,108,580)</u>	<u>25,000</u>
Total other financing sources (uses)	<u>(750,000)</u>	<u>(883,580)</u>	<u>(858,580)</u>	<u>25,000</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(913,600)	(922,180)	(687,833)	234,347
 FUND BALANCE – BEGINNING OF YEAR	<u>1,395,072</u>	<u>1,395,072</u>	<u>1,395,072</u>	<u>-</u>
 FUND BALANCE – END OF YEAR	<u>\$ 481,472</u>	<u>\$ 472,892</u>	<u>\$ 707,239</u>	<u>\$ 234,347</u>

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
PUBLIC IMPROVEMENT GRANT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Federal grants	\$ -	\$ 44,200	\$ 44,200	\$ -
EXPENDITURES				
Community development	-	44,200	44,200	-
Economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>44,200</u>	<u>44,200</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

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

	Fiscal year ending September 30,			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 681,111	\$ 728,751	\$ 700,614	\$ 646,831
Interest on total pension liability	2,164,205	2,129,388	2,079,410	1,964,261
Benefit changes	-	-	-	(20,349)
Difference between expected and actual experience	200,830	(609,493)	(385,599)	646,323
Assumption changes	(4,006)	2,382,661	-	-
Benefit payments	(1,743,986)	(1,658,682)	(1,588,019)	(1,509,218)
Refunds	(22,142)	(15,978)	(8,802)	(6,314)
Pension plan administrative expense	-	(39,840)	(60,802)	(64,799)
Net change in total pension liability	<u>1,276,012</u>	<u>2,916,807</u>	<u>736,802</u>	<u>1,656,735</u>
Total pension liability, beginning of year	<u>33,837,964</u>	<u>30,921,157</u>	<u>30,184,355</u>	<u>28,527,620</u>
Total pension liability, end of year	<u>\$ 35,113,976</u>	<u>\$ 33,837,964</u>	<u>\$ 30,921,157</u>	<u>\$ 30,184,355</u>
Plan fiduciary net position				
Employer contributions	\$ 511,856	\$ 512,328	\$ 559,403	\$ 605,570
Employee contributions	165,471	159,472	156,826	115,200
Pension plan net investment income	3,294,014	2,852,212	(393,156)	2,929,450
Benefit payments	(1,743,986)	(1,658,682)	(1,588,019)	(1,509,218)
Refunds	(22,142)	(15,978)	(8,802)	(6,314)
Pension plan administrative expense	(46,542)	(39,840)	(60,802)	(64,799)
Other	-	-	-	-
Net change in plan fiduciary net position	<u>2,158,671</u>	<u>1,809,512</u>	<u>(1,334,550)</u>	<u>2,069,889</u>
Plan fiduciary net position, beginning of year	<u>33,396,678</u>	<u>31,587,166</u>	<u>32,921,716</u>	<u>30,851,827</u>
Plan fiduciary net position, end of year	<u>\$ 35,555,349</u>	<u>\$ 33,396,678</u>	<u>\$ 31,587,166</u>	<u>\$ 32,921,716</u>
Net pension liability (asset)	\$ (441,373)	\$ 441,286	\$ (666,009)	\$ (2,737,361)
Plan fiduciary net position as a percentage of total pension liability	101.26%	98.70%	102.15%	109.07%
Covered employee payroll	\$ 5,532,246	\$ 5,642,470	\$ 5,347,161	\$ 5,090,884
Net pension liability as a percentage of covered employee payroll	(7.98)%	7.82%	(12.46)%	(53.77)%

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

CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
EMPLOYEE RETIREMENT SYSTEM

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

<u>FY Ending September 30,</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll</u>	<u>Net Pension Liability as a % of Covered Payroll</u>
2014	\$ 30,184	\$ 32,922	\$ (2,737)	109.07%	\$ 5,091	(53.77)%
2015	\$ 30,921	\$ 31,587	\$ (666)	102.15%	\$ 5,347	(12.46)%
2016	\$ 33,838	\$ 33,397	\$ 441	98.70%	\$ 5,642	7.82%
2017	\$ 35,114	\$ 35,555	\$ (441)	101.26%	\$ 5,532	(7.98)%

Schedule of Investment Returns

<u>FY Ending September 30,</u>	<u>Annual Return*</u>	* - annual money-weighted rate of return, Net of investment expenses
2014	9.2%	
2015	(1.3)%	
2016	8.8%	
2017	7.8%	

Schedule of City Contributions

<u>FY Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 574,553	\$ 605,570	\$ (31,017)	\$ 5,090,884	11.90%
2015	\$ 561,708	\$ 559,403	\$ 2,305	\$ 5,347,161	10.46%
2016	\$ 521,972	\$ 512,328	\$ 9,644	\$ 5,642,470	9.08%
2017	\$ 483,387	\$ 511,855	\$ (28,468)	\$ 5,532,246	9.25%

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

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value with 5-Year Smoothing; 20% corridor
Inflation	3.00%
Salary Increases	4.00% to 14.00%
Investment Rate of Return	7.00%
Retirement Age	Age and experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2011 valuation.
Mortality	RP-2000 Table projected to 2020 with scale AA for both men and women.

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFITS**

GASB 45

Schedule of Funding Progress

(Dollars represented in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$ -	\$ 16,267	\$ 16,267	0%	\$ 5,107	318%
12/31/07	-	17,702	17,702	0%	4,986	355%
12/31/09	-	17,475	17,475	0%	4,973	351%
12/31/11	614,043	16,780	16,166	3.7%	4,873	332%
12/31/13	2,363,217	20,532	18,168	11.5%	5,018	362%
09/30/17	7,096,892	11,001	3,904	64.5%	3,742	104%

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

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

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
9/30/08	\$ 1,410,567	39.6%
9/30/09	1,474,042	35.1%
9/30/10	2,048,963	27.5%
9/30/11	1,999,632	51.9%
9/30/12	1,474,035	84.4%
9/30/13	1,512,948	84.5%
9/30/14	1,408,387	87.4%
9/30/15	1,418,911	100.0%
9/30/16	1,610,450	103.7%
9/30/17	1,629,825	111.1%

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
SINGLE-EMPLOYER OTHER POSTEMPLOYMENT BENEFIT PLAN**

Schedule of Changes in Net OPEB Liability and Related Ratios

GASB 74

	Fiscal Year Ended <u>September 30, 2017</u>
Total OPEB liability	
Service cost	\$ 110,597
Interest on total OPEB liability	849,672
Changes in benefit terms	(493,648)
Assumption changes	-
Differences between expected and actual experience	(1,354,468)
Benefit payments	<u>(491,016)</u>
Net change in total OPEB liability	(1,378,863)
Total OPEB liability, beginning of year	<u>12,379,519</u>
Total OPEB liability, end of year	<u>11,000,656</u>
Plan fiduciary net position	
Employer contributions	1,628,100
Net investment income	753,741
Benefit payments	(491,016)
Administrative expense	<u>(14,600)</u>
Net change in plan fiduciary net position	1,876,225
Plan fiduciary net position, beginning of year	<u>5,220,667</u>
Plan fiduciary net position, end of year	<u>7,096,892</u>
Net OPEB liability	<u>\$ 3,903,764</u>
Plan fiduciary net position as a percentage of total OPEB liability	64.5%
Covered payroll	<u>\$ 3,742,399</u>
Net OPEB liability as a percentage of covered payroll	104.3%

Note: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
SINGLE-EMPLOYER OTHER POSTEMPLOYMENT BENEFIT PLAN**

GASB 74

Schedule of Net OPEB Liability
(Dollars represented in thousands)

<u>FY Ending September 30,</u>	<u>Total OPEB Liability</u>	<u>Plan Net Position</u>	<u>Net OPEB Liability</u>	<u>Plan Net Position as a % of Total OPEB Liability</u>	<u>Covered Payroll</u>	<u>Net OPEB Liability as a % of Covered Payroll</u>
2017	\$ 11,001	\$ 7,097	\$ 3,904	64.5%	\$ 3,742	104.3%

NOTE: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
SINGLE-EMPLOYER OTHER POSTEMPLOYMENT BENEFIT PLAN**

GASB 74

Schedule of Investment Returns

<u>Fiscal Year Ending September 30,</u>	<u>Annual Return</u>
2017	10.99%

Annual money-weighted rate of return, net of investment expenses

NOTE: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CITY OF STURGIS
REQUIRED SUPPLEMENTAL INFORMATION
SINGLE-EMPLOYER OTHER POSTEMPLOYMENT BENEFIT PLAN**

GASB 74

Schedule of Contributions

Fiscal year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as of % of Covered Payroll
2017	\$ 1,629,825	\$ 1,628,100	\$ 1,725	\$ 3,742,399	43.5%

NOTE: GASB 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Actuarial valuation date	September 30, 2017
Actuarial cost method	Entry age normal/level % of salary
Amortization method	Level dollar
Remaining amortization period	10 years (fiscal year beginning October 1, 2016)
Asset valuation method	Market value
Inflation	3.0% per year
Payroll growth	4.0% per year for inflation plus merit and longevity increases
Discount rate	7.0%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Health care trend rates	Trend starting at 8.0% and gradually decreasing to an ultimate trend rate of 4.5%
Aging factors	The tables used in developing the retiree premium are based on a recent Society of Actuaries study of health costs
Expenses	Investment and administrative expenses are net of the investment returns
Cost method	Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where: <ul style="list-style-type: none"> • service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement; and • annual Service Cost is a constant percentage of the participant's salary that is assumed to increase according to the Payroll Growth.

OTHER SUPPLEMENTAL INFORMATION

**CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2017**

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 537,366	\$ 983	\$ 538,349
Investments	-	623,538	623,538
Receivables			
Accounts	53,365	-	53,365
Interest	-	-	-
Due from other funds	-	-	-
Due from other governmental units	-	-	-
Prepaid items	630	-	630
Inventory	<u>48,684</u>	<u>-</u>	<u>48,684</u>
 Total assets	 <u>\$ 640,045</u>	 <u>\$ 624,521</u>	 <u>\$ 1,264,566</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 147,682	\$ -	\$ 147,682
Due to other funds	-	-	-
Accrued expenses	30,062	-	30,062
Unearned revenue	<u>46,974</u>	<u>-</u>	<u>46,974</u>
 Total liabilities	 224,718	 -	 224,718
 Fund Balance			
Nonspendable	49,314	-	49,314
Restricted	-	624,521	624,521
Committed	<u>366,013</u>	<u>-</u>	<u>366,013</u>
 Total fund balance	 <u>415,327</u>	 <u>624,521</u>	 <u>1,039,848</u>
 Total liabilities and fund balance	 <u>\$ 640,045</u>	 <u>\$ 624,521</u>	 <u>\$ 1,264,566</u>

CITY OF STURGIS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2017

	<u>Special Revenue Funds</u>	<u>Permanent Funds Cemetery Trust Fund</u>	<u>Total Non-Major, Governmental Funds</u>
Revenue			
License and permits	\$ 48,104	\$ -	\$ 48,104
State grants	42,900	-	42,900
Charges for services	992,679	3,719	996,398
Fines and forfeits	18,525	-	18,525
Investment income (loss)	-	6,881	6,881
Contributions	185,865	-	185,865
Other	<u>69,964</u>	<u>-</u>	<u>69,964</u>
Total revenue	1,358,037	10,600	1,368,637
Expenditures			
General government	277,815	-	277,815
Public safety	128,523	-	128,523
Public works	245,882	-	245,882
Recreation and cultural	1,201,050	-	1,201,050
Community development	110,570	-	110,570
Capital outlay	482,181	-	482,181
Debt service	<u>76,216</u>	<u>-</u>	<u>76,216</u>
Total expenditures	<u>2,522,237</u>	<u>-</u>	<u>2,522,237</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(1,164,200)	10,600	(1,153,600)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,214,336	-	1,214,336
Operating transfers out	<u>-</u>	<u>(254,356)</u>	<u>(254,356)</u>
Total other financing sources (uses)	<u>1,214,336</u>	<u>(254,356)</u>	<u>959,980</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	50,136	(243,756)	(193,620)
FUND BALANCE – BEGINNING OF YEAR	<u>365,191</u>	<u>868,277</u>	<u>1,233,468</u>
FUND BALANCE – END OF YEAR	<u>\$ 415,327</u>	<u>\$ 624,521</u>	<u>\$ 1,039,848</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2017

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 158,405	\$ 15,434	\$ 56,025	\$ 25,294
Accounts receivables	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Prepaid items	-	-	-	-
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 158,405</u>	<u>\$ 15,434</u>	<u>\$ 56,025</u>	<u>\$ 25,294</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 437	\$ 618	\$ 23,710	\$ 121
Due to other funds	-	-	-	-
Accrued expenses	2,364	-	6,706	832
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	2,801	618	30,416	953
Fund Balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	<u>155,604</u>	<u>14,816</u>	<u>25,609</u>	<u>24,341</u>
Total fund balance	<u>155,604</u>	<u>14,816</u>	<u>25,609</u>	<u>24,341</u>
Total liabilities and fund balance	<u>\$ 158,405</u>	<u>\$ 15,434</u>	<u>\$ 56,025</u>	<u>\$ 25,294</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ 47,303	\$ 26,089	\$ 54,678	\$ 99,911	\$ 54,227	\$ 537,366
-	15,607	575	21,900	15,283	53,365
-	-	-	-	-	-
-	-	-	-	-	-
-	-	630	-	-	630
<u>-</u>	<u>25,812</u>	<u>-</u>	<u>-</u>	<u>22,872</u>	<u>48,684</u>
<u>\$ 47,303</u>	<u>\$ 67,508</u>	<u>\$ 55,883</u>	<u>\$ 121,811</u>	<u>\$ 92,382</u>	<u>\$ 640,045</u>
\$ 4,928	\$ 6,647	\$ 1,664	\$ 73,710	\$ 35,847	\$ 147,682
-	-	-	-	-	-
2,995	10,858	-	6,004	303	30,062
<u>-</u>	<u>24,179</u>	<u>2,977</u>	<u>19,818</u>	<u>-</u>	<u>46,974</u>
7,923	41,684	4,641	99,532	36,150	224,718
-	25,812	630	-	22,872	49,314
-	-	-	-	-	-
<u>39,380</u>	<u>12</u>	<u>50,612</u>	<u>22,279</u>	<u>33,360</u>	<u>366,013</u>
<u>39,380</u>	<u>25,824</u>	<u>51,242</u>	<u>22,279</u>	<u>56,232</u>	<u>415,327</u>
<u>\$ 47,303</u>	<u>\$ 67,508</u>	<u>\$ 55,883</u>	<u>\$ 121,811</u>	<u>\$ 92,382</u>	<u>\$ 640,045</u>

CITY OF STURGIS
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2017

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
Revenue				
License and permits	\$ 48,104	\$ -	\$ -	\$ -
State grants	-	42,900	-	-
Charges for services	-	100	79,280	-
Fines and forfeits	-	-	-	18,525
Contributions	-	-	-	-
Other	<u>142</u>	<u>607</u>	<u>1,838</u>	<u>16</u>
Total revenue	48,246	43,607	81,118	18,541
Expenditures				
General government	-	-	277,815	-
Public safety	103,622	-	-	24,901
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Community development	-	110,570	-	-
Capital outlay	-	-	219,561	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>103,622</u>	<u>110,570</u>	<u>497,376</u>	<u>24,901</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(55,376)	(66,963)	(416,258)	(6,360)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	50,000	75,000	433,336	20,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>50,000</u>	<u>75,000</u>	<u>433,336</u>	<u>20,000</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,376)	8,037	17,078	13,640
FUND BALANCE – BEGINNING OF YEAR	<u>160,980</u>	<u>6,779</u>	<u>8,531</u>	<u>10,701</u>
FUND BALANCE – END OF YEAR	<u>\$ 155,604</u>	<u>\$ 14,816</u>	<u>\$ 25,609</u>	<u>\$ 24,341</u>

<u>Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Doyle Community Center Fund</u>	<u>Airport Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,104
-	-	-	-	-	42,900
54,752	314,961	24,912	396,678	121,996	992,679
-	-	-	-	-	18,525
12,455	6,003	17,069	150,338	-	185,865
<u>53</u>	<u>10,817</u>	<u>54</u>	<u>4,594</u>	<u>51,843</u>	<u>69,964</u>
67,260	331,781	42,035	551,610	173,839	1,358,037
-	-	-	-	-	277,815
-	-	-	-	-	128,523
-	-	-	-	245,882	245,882
174,587	552,825	49,333	424,305	-	1,201,050
-	-	-	-	-	110,570
-	3,689	-	226,446	32,485	482,181
<u>-</u>	<u>62,122</u>	<u>-</u>	<u>14,094</u>	<u>-</u>	<u>76,216</u>
<u>174,587</u>	<u>618,636</u>	<u>49,333</u>	<u>664,845</u>	<u>278,367</u>	<u>2,522,237</u>
(107,327)	(286,855)	(7,298)	(113,235)	(104,528)	(1,164,200)
99,600	292,820	-	110,000	133,580	1,214,336
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>99,600</u>	<u>292,820</u>	<u>-</u>	<u>110,000</u>	<u>133,580</u>	<u>1,214,336</u>
(7,727)	5,965	(7,298)	(3,235)	29,052	50,136
<u>47,107</u>	<u>19,859</u>	<u>58,540</u>	<u>25,514</u>	<u>27,180</u>	<u>365,191</u>
<u>\$ 39,380</u>	<u>\$ 25,824</u>	<u>\$ 51,242</u>	<u>\$ 22,279</u>	<u>\$ 56,232</u>	<u>\$ 415,327</u>

**CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 122,640	\$ 189,992	\$ 10,679	\$ 323,311
Investments	1,012,623	-	282,927	1,295,550
Receivables	-	-	38,732	38,732
Due from other funds	-	-	-	-
Prepaid items	-	106,991	166,479	273,470
Inventory	<u>2,706</u>	<u>-</u>	<u>-</u>	<u>2,706</u>
Total current assets	1,137,969	296,983	498,817	1,933,769
NONCURRENT ASSETS				
Capital assets, net of depreciation	<u>1,843,015</u>	<u>-</u>	<u>-</u>	<u>1,843,015</u>
Total assets	2,980,984	296,983	498,817	3,776,784
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	61,165	-	-	61,165
Accounts payable	18,825	21,010	408,542	448,377
Accrued expenses	2,168	-	-	2,168
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	82,158	21,010	408,542	511,710
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>600,884</u>	<u>-</u>	<u>-</u>	<u>600,884</u>
Total liabilities	683,042	21,010	408,542	1,112,594
NET POSITION				
Invested in capital assets, net of related debt	1,180,966	-	-	1,180,966
Unrestricted	<u>1,116,976</u>	<u>275,973</u>	<u>90,275</u>	<u>1,483,224</u>
Total net position	<u>\$2,297,942</u>	<u>\$ 275,973</u>	<u>\$ 90,275</u>	<u>\$2,664,190</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2017

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
OPERATING REVENUE				
Charges to other funds	\$ 976,380	\$ 160,470	\$1,587,186	\$2,724,036
Other revenues	<u>20,387</u>	<u>-</u>	<u>293,632</u>	<u>314,019</u>
Total operating revenue	996,767	160,470	1,880,818	3,038,055
OPERATING EXPENSES				
Operating and administrative	474,804	1,080	38,944	514,828
Insurance premiums and claims	-	137,432	1,816,472	1,953,904
Depreciation	<u>540,553</u>	<u>-</u>	<u>-</u>	<u>540,553</u>
Total operating expenses	<u>1,015,357</u>	<u>138,512</u>	<u>1,855,416</u>	<u>3,009,285</u>
OPERATING INCOME (LOSS)	(18,590)	21,958	25,402	28,770
NONOPERATING REVENUE (EXPENSE)				
Investment income	7,786	208	2,158	10,152
Gain (loss) on sale of fixed assets	92,793	-	-	92,793
Interest expense	<u>(14,698)</u>	<u>-</u>	<u>-</u>	<u>(14,698)</u>
Total nonoperating revenue (expense)	<u>85,881</u>	<u>208</u>	<u>2,158</u>	<u>88,247</u>
CHANGE IN NET POSITION	67,291	22,166	27,560	117,017
NET POSITION – BEGINNING OF YEAR	<u>2,230,651</u>	<u>253,807</u>	<u>62,715</u>	<u>2,547,173</u>
NET POSITION – END OF YEAR	<u>\$2,297,942</u>	<u>\$ 275,973</u>	<u>\$ 90,275</u>	<u>\$2,664,190</u>

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2017

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Cash flows from operating activities				
Receipts from customers	\$ 8,119	\$ -	\$ 298,438	\$ 298,438
Receipts for internal services provided	976,380	160,470	1,587,186	2,732,155
Payments to suppliers	(401,629)	(147,103)	(1,734,981)	(2,283,713)
Payments to employees	<u>(90,718)</u>	<u>-</u>	<u>-</u>	<u>(90,718)</u>
Net cash provided by (used for) operating activities	492,152	13,367	150,643	656,162
Cash flows from capital and related financing activities				
Acquisition of capital assets	(326,438)	-	-	(326,438)
Proceeds from sale of capital assets	92,793	-	-	92,793
Proceeds from long-term debt	-	-	-	-
Principal paid on debt	(60,011)	-	-	(60,011)
Interest paid on debt	<u>(14,698)</u>	<u>-</u>	<u>-</u>	<u>(14,698)</u>
Net cash provided by (used for) capital and related financing activities	(308,354)	-	-	(308,354)
Cash flows from investing activities				
Purchase of investments	(107,753)	-	(181,919)	(289,672)
Interest on investments	<u>7,787</u>	<u>208</u>	<u>2,158</u>	<u>10,153</u>
Net cash provided by investment activities	<u>(99,966)</u>	<u>208</u>	<u>(179,761)</u>	<u>(279,519)</u>
Net increase (decrease) in cash	83,832	13,575	(29,118)	68,289
Cash – Beginning of Year	<u>38,808</u>	<u>176,417</u>	<u>39,797</u>	<u>255,022</u>
Cash – End of Year	<u>\$ 122,640</u>	<u>\$ 189,992</u>	<u>\$ 10,679</u>	<u>\$ 323,311</u>

Continued on next page

CITY OF STURGIS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2017

	<u>Motor Vehicle and Equipment Fund</u>	<u>Workers' Compensation Insurance Fund</u>	<u>Employee Benefit Fund</u>	<u>Combined Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (18,590)	\$ 21,958	\$ 25,402	\$ 28,770
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	540,553	-	-	540,553
(Increase) decrease in				
Receivables	-	-	4,806	4,806
Due from other funds	-	-	-	-
Prepaid items	-	(6,233)	87,332	81,099
Inventory	357	-	-	357
Increase (decrease) in				
Accounts payable	(30,415)	(2,358)	33,103	330
Accrued expenses	247	-	-	247
Due to other funds	-	-	-	-
Net cash provided by (used for) operating activities	<u>\$ 492,152</u>	<u>\$ 13,367</u>	<u>\$ 150,643</u>	<u>\$ 656,162</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2017**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 89,323
Accounts receivable	2,413
Due from governmental units	-
Prepaid assets	<u>2,550</u>
Total assets	<u><u>\$ 94,286</u></u>
LIABILITIES	
Liabilities	
Accounts Payable	\$ 926
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	30,568
FUND BALANCE	
Nonspendable	2,550
Restricted	<u>60,242</u>
Total fund balance	<u><u>62,792</u></u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 94,286</u></u>

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

Total fund balance - governmental fund		\$ 62,792
Amounts reported for the governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Governmental capital assets	662,026	
Less accumulated depreciation	<u>(470,008)</u>	192,018
Certain liabilities are not due and payable in the current periods and therefore are not reported in the funds		
Note payable		<u>(116,866)</u>
Net position of governmental activities		<u><u>\$ 137,944</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 DOWNTOWN DEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGE IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 38,363
State sources	4,688
Charges for services	17,786
Interest	12
Rents	1,875
Other	555
Total revenues	63,279
EXPENDITURES	
Economic development	34,239
Debt service - principal	11,193
Debt service - interest	4,103
Total expenditures	49,535
EXCESS OF REVENUE OVER EXPENDITURES	13,744
FUND BALANCE – BEGINNING OF YEAR	49,048
FUND BALANCE – END OF YEAR	\$ 62,792

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

Net change in fund balance - governmental fund	\$ 13,744
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Amounts reported for governmental activities in the statement of activities are different because:

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

Asset impairment	(26,000)
Expenditures for capital assets	-
Depreciated expense	(39,128)

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

Principal payments on debt obligations	11,193
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Change in net position of governmental activities	\$ (40,191)
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**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2017**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 5,600
Accounts receivable	68,318
Total assets	\$ 73,918
LIABILITIES	
Accounts payable	\$ 70,205
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	68,318
FUND BALANCE	
Restricted (deficit)	(64,605)
Total liabilities, deferred inflows of resources, and fund balance	\$ 73,918

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

Total fund balance (deficit) - governmental fund	\$ (64,605)
Amounts reported for the governmental activities in the statement of net position are different because:	
Certain assets are not available to pay current expenditures and therefore are not reported in the funds.	
Accounts receivable	68,318
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Accrued interest payable	(41,956)
Notes payable	(1,919,954)
Net position of governmental activities (deficit)	\$ (1,958,197)

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BROWNFIELD REDEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 9,626
Other	<u>9,625</u>
Total revenues	19,251
EXPENDITURES	
Community development	206,776
Debt service - principal	29,592
Debt service - interest	<u>3,743</u>
Total expenditures	<u>240,111</u>
EXCESS OF REVENUES OVER EXPENDITURES	(220,860)
FUND BALANCE – BEGINNING OF YEAR	<u>156,255</u>
FUND BALANCE (DEFICIT) – END OF YEAR	<u><u>\$ (64,605)</u></u>

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

Net change in fund balance - governmental fund	\$ (220,860)
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.	
Increase of other revenues	23,709
Expenditures in the statement of activities that do not use current resources are not reported as expenditures in the funds, but rather are accrued to subsequent fiscal years.	
Increase in interest expense	(41,956)
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>29,592</u>
Change in net position of governmental activities	<u><u>\$ (209,515)</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2017**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 36,428
Accounts receivable	4,954
Total assets	\$ 41,382
 LIABILITIES	
Accounts payable	\$ -
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	4,954
 FUND BALANCE	
Restricted	36,428
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 41,382

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

Total fund balance - governmental fund	\$ 36,428
Amounts reported for the governmental activities in the statement of net position are different because:	
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Note payable	-
Net position of governmental activities	\$ 36,428

**CITY OF STURGIS
 COMPONENT UNIT FUND
 LOCAL DEVELOPMENT FINANCE AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>General</u>
REVENUE	
Captured property taxes	\$ 35,410
Interest	<u>27</u>
Total revenues	35,437
EXPENDITURES	
Debt service-principal	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES	35,437
FUND BALANCE – BEGINNING OF YEAR	<u>991</u>
FUND BALANCE – END OF YEAR	<u>\$ 36,428</u>

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

Net change in fund balance - governmental fund	\$ 35,437
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	<u>-</u>
Change in net position of governmental activities	<u>\$ 35,437</u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 BALANCE SHEET
 SEPTEMBER 30, 2017**

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 2,069</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	\$ -
Fund Balance	
Restricted	<u>2,069</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 2,069</u></u>

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

Total fund balance - governmental fund	\$ 2,069
 Amounts reported for the governmental activities in the statement of net position are different because:	
 Certain assets are not due and collectible in the current period and therefore are not reported in the funds.	
Lease receivable	8,530,000
 Certain assets are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	<u>(8,530,000)</u>
 Net position of governmental activities	 <u><u>\$ 2,069</u></u>

**CITY OF STURGIS
 COMPONENT UNIT FUND
 BUILDING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2017**

	<u>General</u>
REVENUE	
Lease income	\$ 647,513
Other	-
Total Revenues	647,513
EXPENDITURES	
Debt service - principal	325,000
Debt service - interest and other	322,263
Total Expenditures	647,263
EXCESS OF REVENUE OVER EXPENDITURES	250
FUND BALANCE – BEGINNING OF YEAR	1,819
FUND BALANCE – END OF YEAR	\$ 2,069

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

Net change in fund balance - governmental fund	\$ 250
Collection of lease receivable is a revenue in the governmental funds, but the collection reduces long-term receivables in the statement of net position	(325,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	325,000
Change in net position of governmental activities	\$ 250